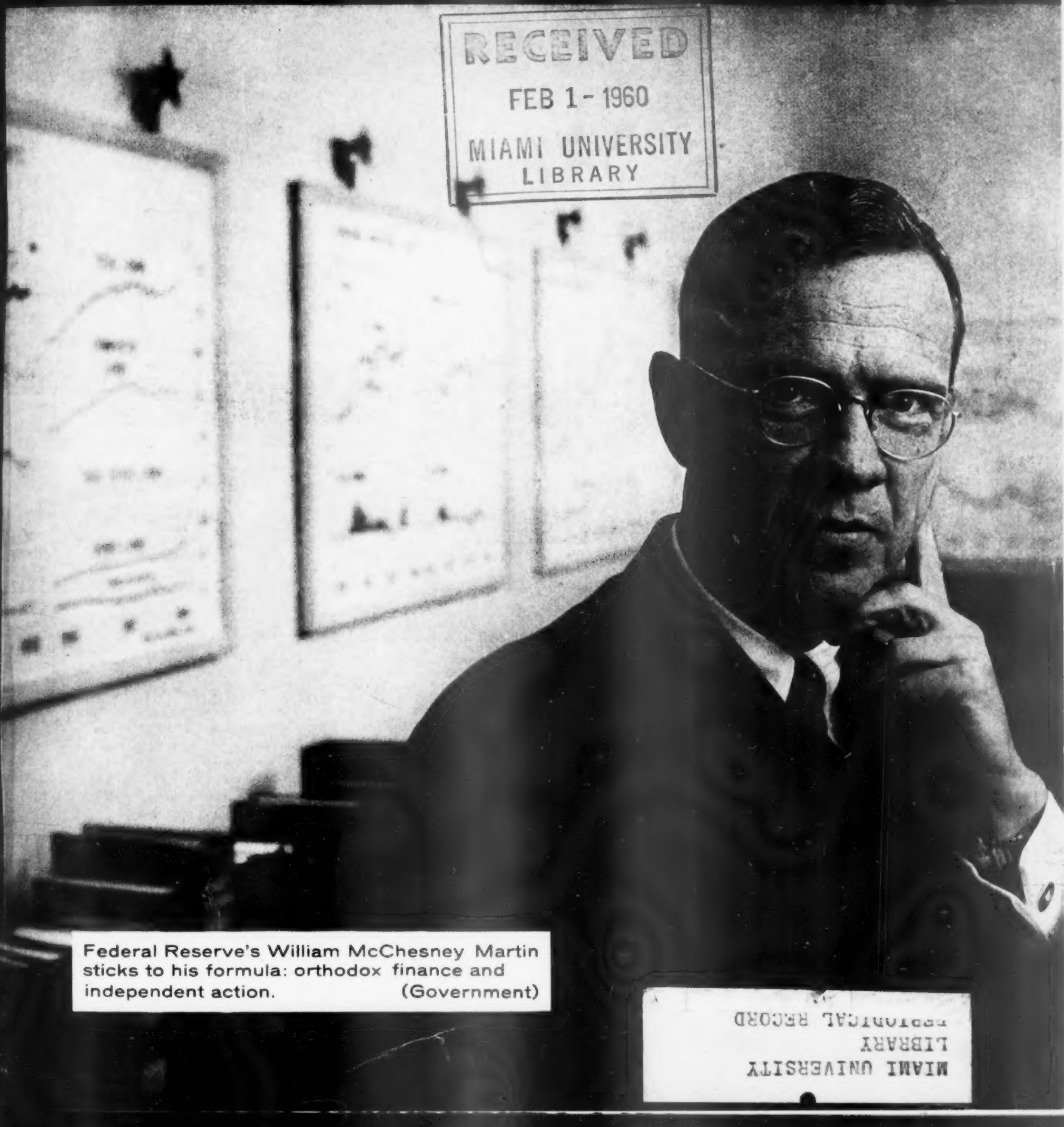
Jan. 30, 1960

Will management still bargain tough?

(Page 25)

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JAN. 30, 1960

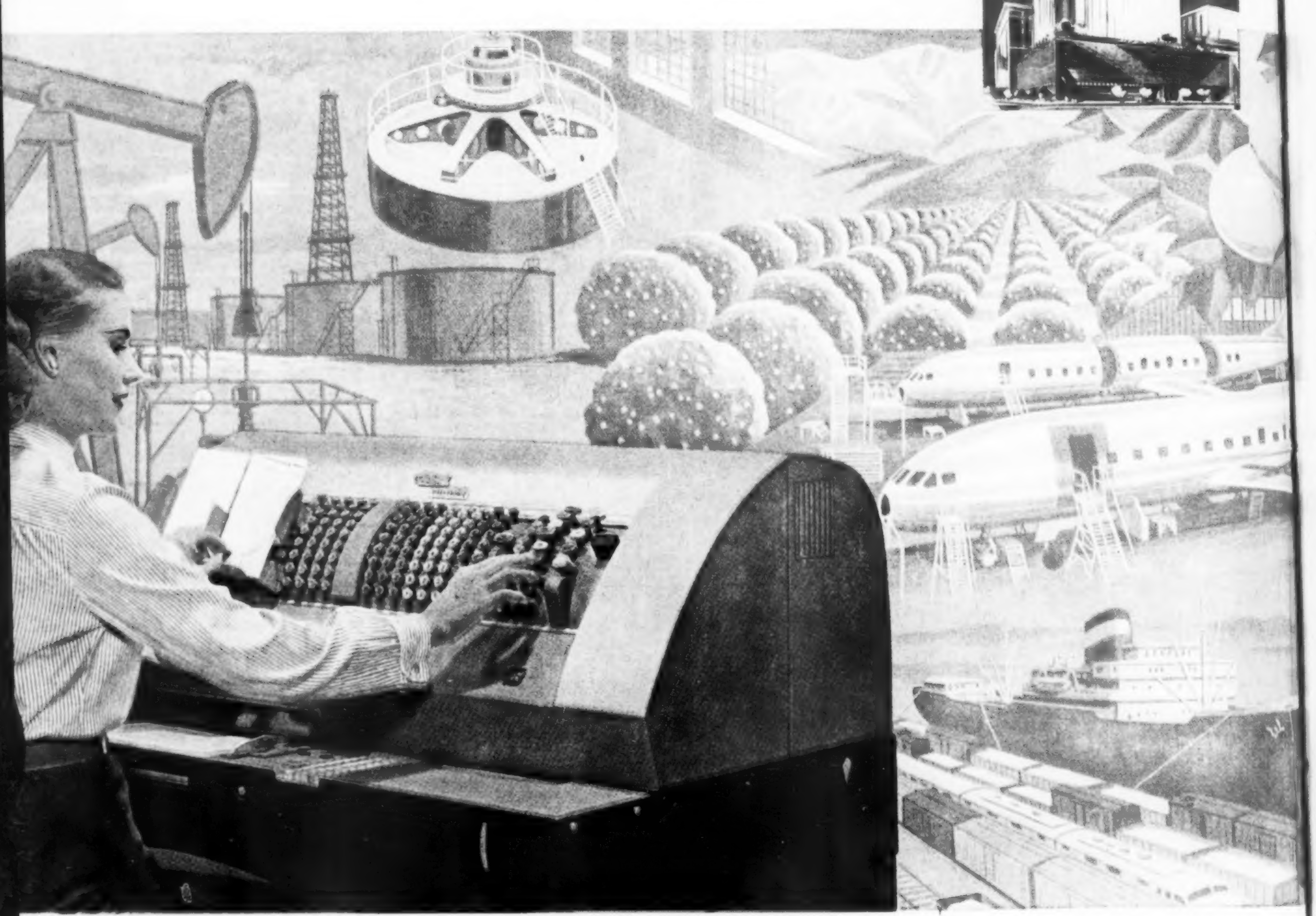


Federal Reserve's William McChesney Martin sticks to his formula: orthodox finance and independent action. (Government)

National's 5000th POST-TRONIC* MACHINE

NOW IN USE AT **California Bank**

THE BANK SERVING INDUSTRY IN SOUTHERN CALIFORNIA



America's leading banks use *National* POST-TRONIC machines—

Installation of the 5000th POST-TRONIC machine by California Bank . . . in addition to those already in use . . . an occasion of which National is justly proud, signals continuous acceptance of the many electronic features and benefits of POST-TRONICS in providing the most efficient service for their customers.

With its new head office nearing completion, and with 67 modern offices serving Southern California, California Bank continues to maintain a high standard of customer service in keeping with its rapidly expanding facilities.

California Bank is one of a long list of America's leading banks who use National POST-TRONIC machines. About 26% of the checks and deposits in the United States are now posted on National Post-Tronics, although the first Post-Tronic was installed only about 2½ years ago.

Your bank, too, can obtain many benefits and savings with National POST-TRONIC machines including: maximum efficiency, speed and accuracy in checking account posting, trial balance and balance transfer; savings in posting time and floor space; neater statements and "on time" mailings; and reduced operating costs.

Call your local National man today.

Among other leading banks using National POST-TRONICS

Bank of America, San Francisco
Chase Manhattan Bank, New York
First National City Bank of New York
Chemical Bank New York Trust Company
Security First National Bank, Los Angeles
Bankers Trust Company, New York
Irving Trust Company, New York
Cleveland Trust Company
Philadelphia National Bank
Seattle-First National Bank
Republic National Bank of Dallas
Riggs National Bank of Washington, D.C.
(and many others)

*TRADE MARK REG. U. S. PAT. OFF.

*National**

ACCOUNTING MACHINES
ADDING MACHINES • CASH REGISTERS
VERSATILE DATA PROCESSING
NCR PAPER (NO CARBON REQUIRED)

THE NATIONAL CASH REGISTER COMPANY, DAYTON 9, OHIO

1,039 OFFICES IN 121 COUNTRIES . . . 76 YEARS OF HELPING BUSINESS SAVE MONEY

in BUSINESS this WEEK *January 30, 1960*

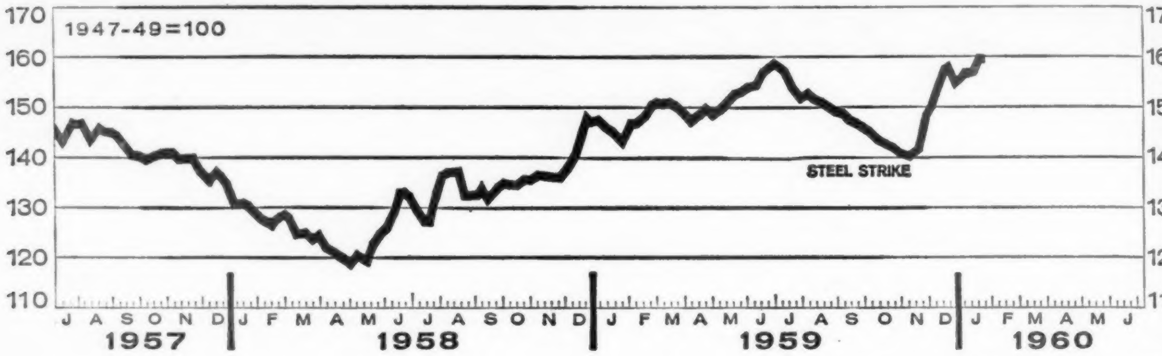
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., 330 W. 42nd St., N. Y. 36, N. Y. Second Class Postage Paid at N. Y. 1, N. Y., and at Albany, N. Y. Subscriptions $6 a year in U. S. A. Canadian and foreign rates on request.

NUMBER 1587

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**144.3**	**156.0**	**160.2** r	**160.1***

PRODUCTION

	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Steel ingot (thous. of tons)	2,032	2,178	2,726	2,727r	**2,717**
Automobiles	125,553	126,843	103,219	173,713r	**176,265**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$63,682	$52,460	$55,038	**$55,003**
Electric power (millions of kilowatt-hours)	10,819	13,394	13,349	14,236	**14,523**
Crude oil and condensate (daily av., thous. of bbl.)	6,536	7,194	7,109	7,146	**7,190**
Bituminous coal (daily av., thous. of tons)	1,455	1,382	1,564	1,500r	**1,471**
Paperboard (tons)	247,488	292,534	251,626	324,592	**322,114**

TRADE

	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	70	57	60	58	**60**
Carloadings: all others (daily av., thous. of cars)	47	41	42	40	**41**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	116	318	132	**120**
Business failures (Dun & Bradstreet, number)	198	296	195	292	**302**

PRICES

	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	88.4	93.2	94.7	**94.8**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	79.5	70.3	72.3	**72.4**
Print cloth (spot and nearby, yd.)	19.8¢	18.2¢	23.0¢	22.9¢	**23.0¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	187.0	186.8	186.8	**186.8**
Scrap steel composite (Iron Age, ton)	$36.10	$42.50	$41.17	$41.83	**$42.50**
Copper (electrolytic, delivered price, E&MJ, lb.)	32.394¢	29.060¢	34.388¢	33.800¢	**34.215¢**
Aluminum, primary pig (U. S. del., E&MJ, lb.)	20.6¢	24.7¢	26.0¢	26.0¢	**26.0¢**
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.)	‡	21.95¢	24.91¢	25.05¢	**25.02¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$1.99	$2.14	$2.07	**$2.08**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	34.57¢	34.32¢	31.85¢	31.91¢	**31.93¢**
Wool tops (Boston, lb.)	$1.96	$1.63	$1.86	$1.83	**$1.88**

FINANCE

	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	55.74	59.26	57.81	**56.99**
Medium grade corporate bond yield (Baa issues, Moody's)	3.59%	4.89%	5.31%	5.34%	**5.36%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2-2⅛%	3⅜%	4⅞%	5%	**5%**

BANKING (Millions of Dollars)

	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Demand deposits adjusted, reporting member banks	‡	63,383	62,482	62,435	**62,273**
Total loans and investments, reporting member banks	‡	103,282	104,935	103,996	**102,834**
Commercial, industrial, and agricultural loans, reporting member banks	‡	31,520	31,407	31,032	**30,880**
U. S. gov't guaranteed obligations held, reporting member banks	‡	34,862	27,496	27,406	**26,904**
Total federal reserve credit outstanding	26,424	27,368	29,883	28,633	**28,098**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Imports (in milions)	**December**	$902	$1,524	$1,479	**$1,675**
McGraw-Hill Indexes of New Orders (1950 = 100)					
New Orders for machinery, except electrical (seasonally adjusted)	**December**	104	140	150	**156**
Construction & mining machinery	**December**	111	164	150	**161**
Engines & turbines	**December**	106	199	139	**158**
Pumps & compressors	**December**	120	175	213	**288**
Metalworking machinery	**December**	125	121	162	**173**
Other industrial machinery	**December**	95	132	121	**140**
Office equipment	**December**	109	190	185	**221**
New contracts for industrial building	**December**	128	80	154	**127**

** Preliminary, week ended January 23, 1960.*
‡ Not available.

r Revised.
§ Date for 'Latest Week' on each series on request.

THE PICTURES—Cover—Robert Phillips; 26—(lt. & cen.) WW, (rt.) UPI; 27—(lt. & cen.) UPI, (rt.) WW; 28, 29—Theodore Rozumalski; 30—WW; 45, 46, 52—Bud Blake; 54, 55—Herb Kratovil; 71—Grant Compton; 101—Sovfoto; 102—Atomics International; 109—Herb Kratovil.

B U S I N E S S   W E E K

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POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

Tax Double Standard

Dear Sir:

Regarding your article Poking Holes in Tax Form 1040 [BW—Nov.28'59,p47], I agree there is a double standard for income taxpayers but not as described. The double standard is between the corporation, company or self-employed individual and the wage earner or salaried individual.

The former may deduct all costs and operating expenses, even losses of previous years.

The latter may deduct state and local taxes, interest, gifts to charity, if he has any left to give, $600 for a wife and a like amount for each child. Who can support a wife for $600 a year or feed, clothe, and educate a child for a like amount?

The former may deduct all expenses entailed in earning a profit.

The latter may not deduct the cost of travel to and from his place of employment yet this is a cost involved in his earning his wage or salary.

I have raised five children (taxpayers) yet I have had to bear all the expense of producing five more taxpayers with what was left after taxes. . . .

JOHN G. MCCARGAR
LOS ANGELES, CALIF.

Productivity Study

Dear Sir:

I am sure you will want to correct a misstatement of my position contained in the article [BW—Jan. 16'60,p22] on the new BLS productivity study. The article says that my difference with BLS relates to the question of acceleration of productivity advances in "nonfarm" industries.

The controversy actually concerns the bureau's presentation of data relating to acceleration in the private economy as a whole. Specifically, I charged in a speech made November 19, 1959, that the third pre-publication draft of the study "attempted to downgrade, obscure and conceal" the significance of findings concerning acceleration that had been set forth in an earlier draft.

The final published version of the study fully supports that charge. The study presents no fewer than 40 separate figures, ranging from 1.7 to 5.0%, all purporting to represent the trend or "normal" annual rate of productivity increase as of 1958. There is practically

no evaluation of the relative validity or reliability of these figures. Nor, aside from a few very general points, is there any clear indication of the purposes, if any, for which these widely divergent figures may, respectively, be used . . .

NAT WEINBERG

DIRECTOR
SPECIAL PROJECTS AND
ECONOMIC ANALYSIS
UNITED AUTO WORKERS
DETROIT, MICH.

Selling Sweda in U.S.

Dear Sir:

The Sourcing article [BW—Jan. 2'60,p66] was, I thought, a very good one. Naturally, we were very pleased to see the pictures of the Sweda products and also the copy about the Sweda acquisition. . . .

There were a couple of points that I would like to clear up. One is that you say we made this acquisition "to sell Svenska's Sweda cash registers through the 325 U. S. outlets of Monroe Calculating Machine, another Litton subsidiary." . . . We have every intention to keep the present Sweda dealer marketing framework throughout the United States. Dealers that are doing a good job of selling and servicing Sweda products will continue to have franchises. In some areas where Sweda dealers have not been active, and also where Sweda has had its own branch offices, Monroe branches will be used.

The other matter is the quote ascribed to me. It sounds as though we are softer competitors than some of the foreign companies . . .

We intend to aggressively market the Sweda line . . . on a hard-hitting program using every proper marketing tool at our command.

FRED R. SULLIVAN

PRESIDENT
MONROE CALCULATING
MACHINE CO.
ORANGE, N. J.

Honest Picture

Dear Sir:

I read with great deal of pleasure the Personal Business section [BW—Dec.5'59,p137] and would like to thank you for the honest resume of the services offered by a professional travel agency, as well as being honest about the fact that there is a service charge made when a personalized itinerary is arranged for a client. . . .

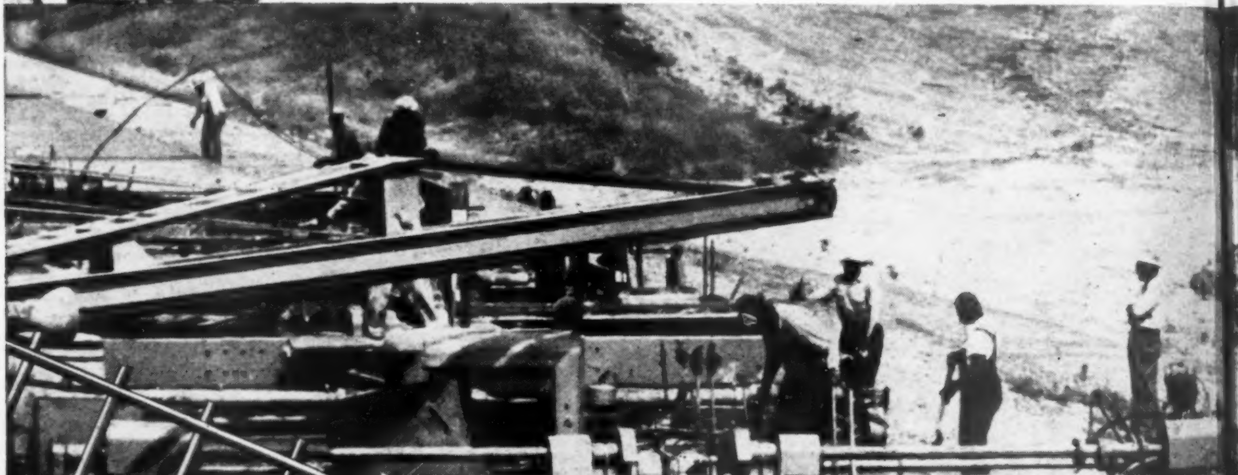
R. E. LYDON

VICE-PRESIDENT
ALLEN TRAVEL SERVICE, INC.
CLEVELAND, OHIO

CF&I Steel Products and the Construction

For years, CF&I has been a prime supplier of steel and steel products for the construction industry. Continual research, one of the meanings behind our Corporate Image, has resulted in new and improved steel products for construction use.

CF&I has also earned a reputation among construction men for product dependability... swift,

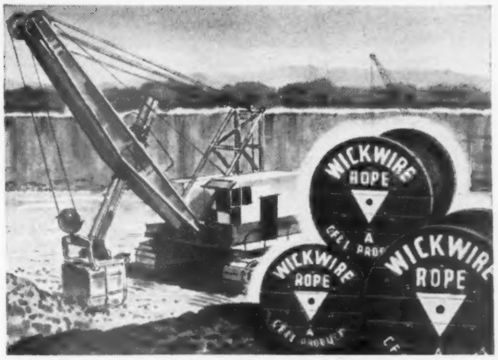


WELDED WIRE FABRIC: CF&I-Clinton Welded Wire Fabric gives concrete extra strength and resistance to cracking, and spreads load stresses over a wide surface. Available in all standard gages and furnished in rolls or mats for quick installation.

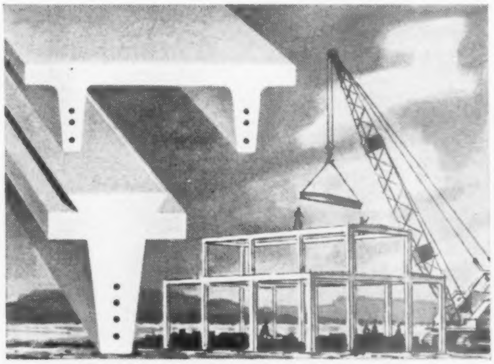
Industry

reliable delivery through distributors and warehouses... and in-field service to our customers.

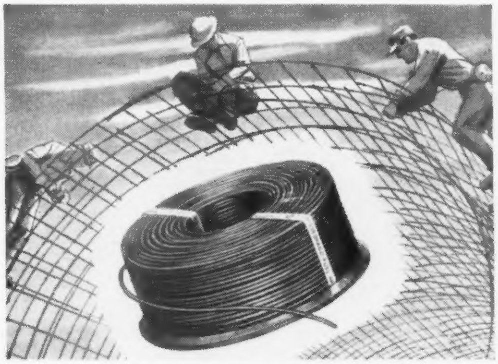
Always it is the aim of CF&I to help America's progress with the American-made steel products shown on these pages, along with a complete line of other steel items for the Construction Industry.



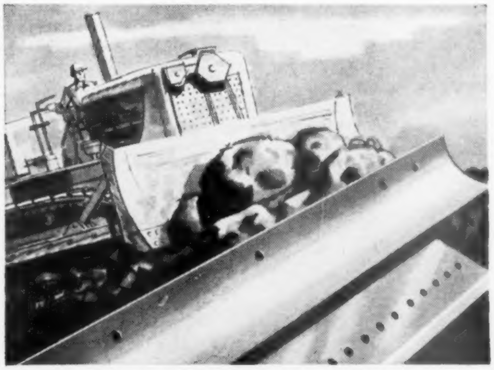
WIRE ROPE: CF&I-Wickwire Wire Rope is made in a broad range of grades and constructions, each designed to resist the punishment inflicted by different operations—abrasion, bending, crushing, or a combination of these wear factors. A complete line of Wire Rope Slings is also available.



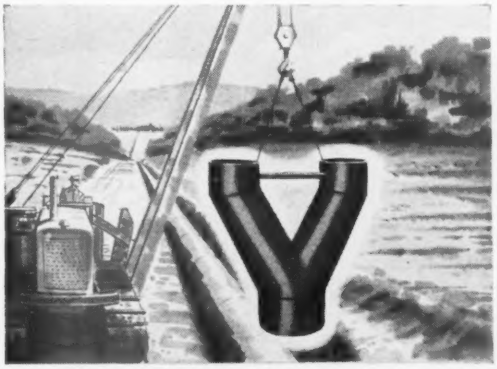
PRESTRESSED CONCRETE STRAND: Stress relieved after stranding, CF&I 7-wire Strand is flexible and easy to use. It is made to ASTM Specification A-416 and is ideal for pretensioning applications. CF&I also offers quick delivery on Prestressed Concrete Wire made to ASTM Specification A-421.



TIE WIRE: CF&I Cal-Tie Wire can't kink, tangle, snag or scratch, assuring maximum safety and economy in tying steel. That's because it is furnished for use in a handy belt dispenser that protects against hazards of loose coil ends. The wire comes in 16 gage. Reinforcing Bars are available in sizes No. 2 to No. 11.



GRADER BLADES: Scientifically designed, CF&I Blades and other Cutting Edges are carefully made of special analysis steel to eliminate hard or soft spots. This assures extra-long service. Wide selection of lengths, widths thicknesses and hole spacings, flat or curved, beveled or squared edges.



STEEL PLATE PRODUCTS: CF&I's Claymont Plant fabricates many types of structural steel plate products—including weldments for underground water viaducts, base and bearing plates for bridges, expansion joints for penstocks, side seal plates for guide gates on dams, and many others.

For complete information on all products, ask for Catalog G-104, "CF&I Steel Products for the Construction Industry."

7471

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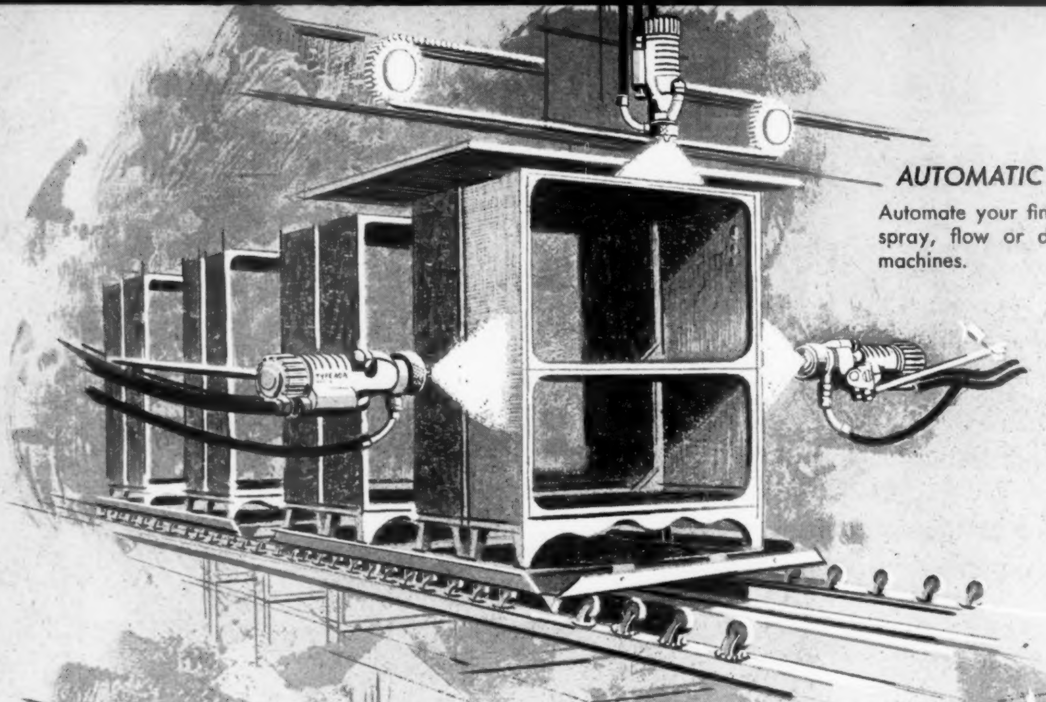
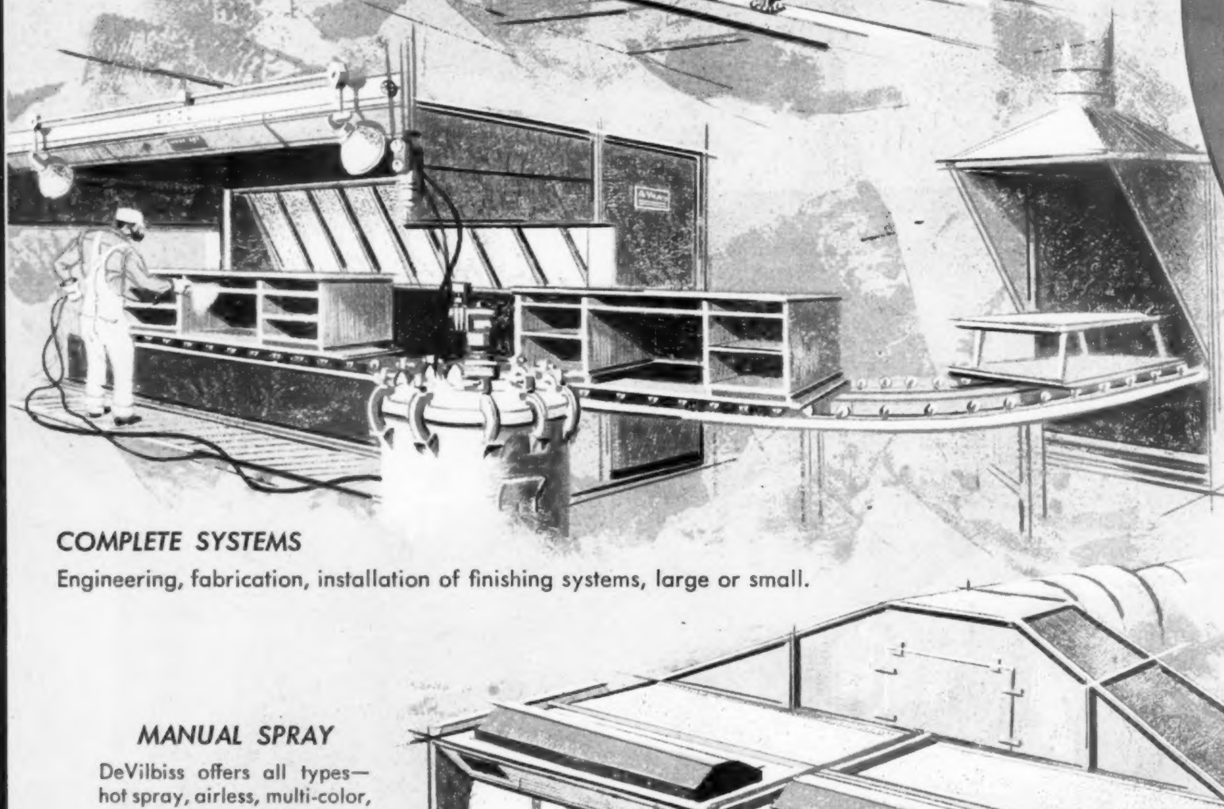
DENVER • OAKLAND • NEW YORK

CF&I STEEL



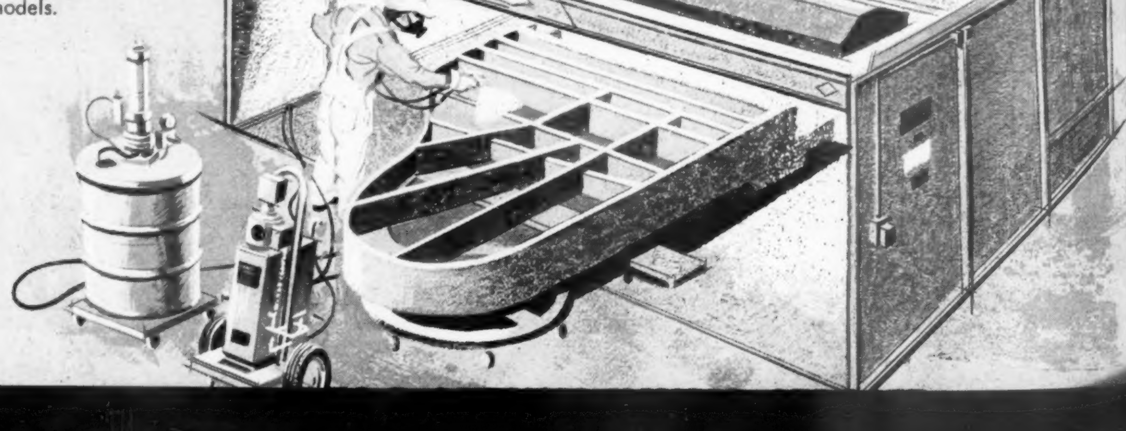
AUTOMATIC SPRAY

Automate your finishing with spray, flow or dip coating machines.



COMPLETE SYSTEMS

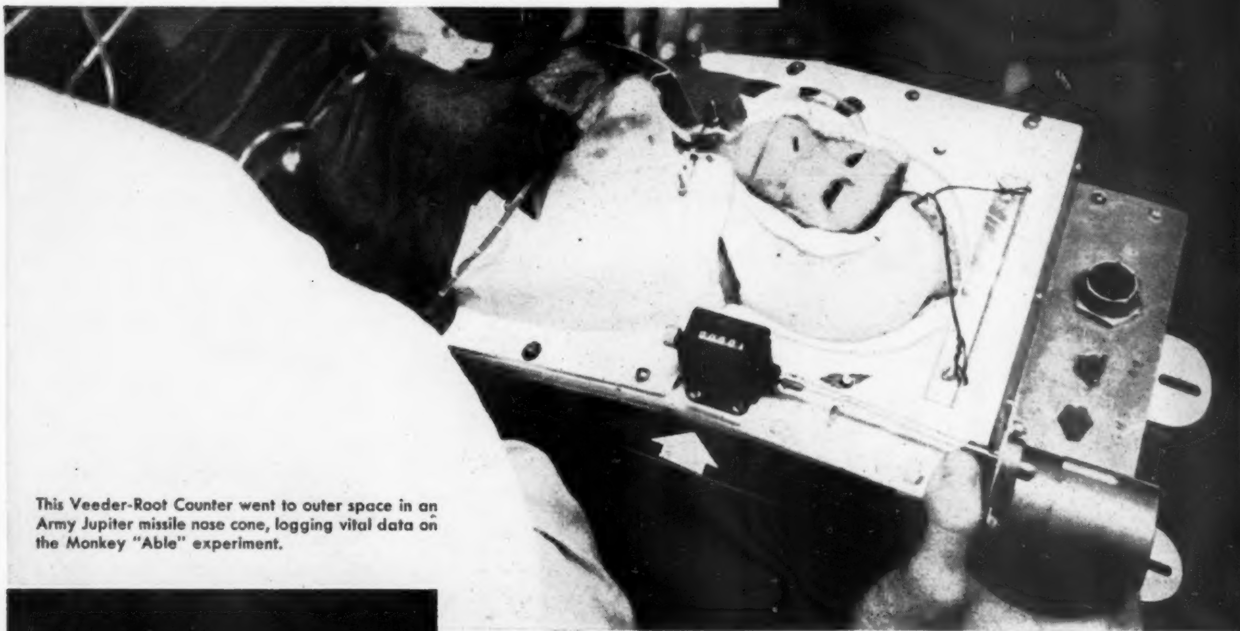
Engineering, fabrication, installation of finishing systems, large or small.



MANUAL SPRAY

DeVilbiss offers all types—hot spray, airless, multi-color, and catalyst, as well as conventional models.

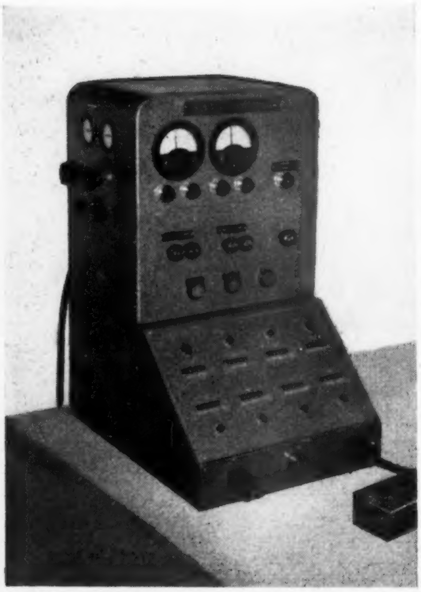
OPERATION READOUT — One of a Series



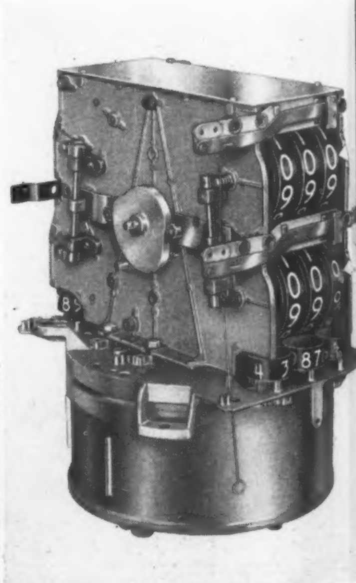
This Veeder-Root Counter went to outer space in an Army Jupiter missile nose cone, logging vital data on the Monkey "Able" experiment.

Everyone

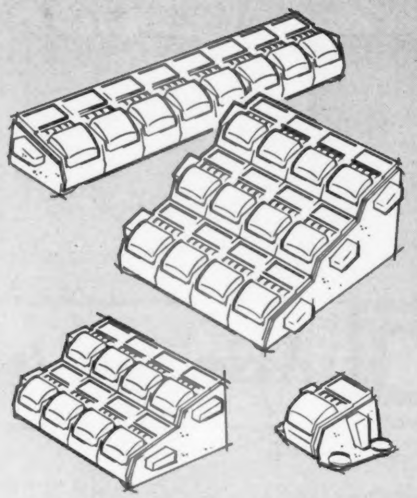
Veeder-Root Counters used as Mileage Recorders provide control data for modern elevator operation. Information is used to plan preventative maintenance, and reduce downtime.



Veeder-Root Electromagnetic Counters give both a continuous and totalized report on tolerances, for this recently developed Taft-Peirce automatic gaging system. Eight different sets of dimensions are recorded.

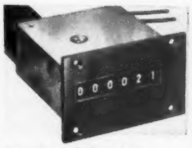


The "Head for Figures" is this famous Veeder-Root Computing head for gasoline pumps, used the world over. It typifies advanced applications of readout and automatic control.



The Veeder-Root VARY-TALLY is a versatile, low-cost reset counter for faster, more accurate hand tallying. Provides positive, easy-to-read record of units, parts, inspection, paperwork, sampling. Available in single units, strips, tiers or any combination.

Counts on Veeder-Root



Veeder-Root Counters of the Month

New! 360° Tape-Type Bearing Counter was developed to provide digital readout of angular relationship. Tape greatly reduces size and weight over conventional devices. Adaptable to many indication requirements.

Series 1591 Quick Reset, High Speed Magnetic Counter is designed for accurate, dependable remote indication of machine operation, or for counting at high speed. Speed: 3000 cpm, 4 or 6 figures, manual or electrical reset.

From outer space to the local gasoline pump, Veeder-Root helps communicate important information. How much? How often? When? How fast? Where? How long? Which direction? What position? . . . all these questions are answered easily, simply, quickly and directly through Veeder-Root's concept of digital communications . . . OPERATION READOUT.

Operation Readout helps you take full advantage of the newest and most advanced counting techniques. It is based on modern uses of Veeder-Root Counting devices, from the simplest type of ratchet counter to the most sophisticated designs of Remote Data Readout, Navigational Counters and Computer-Blender Pump Controls. Through these counters, digital communication and control can provide important advantages in speed, accuracy, human engineering, comprehension and operational control.

Veeder-Root's "Operation Readout" can help you, now! Whatever your indication, readout or counting problem, Veeder-Root offers a century of experience in counting engineering. There are over 400 specific models in stock, ready for prompt shipment, or a special counting or readout device can be developed for your application. Contact your nearest Veeder-Root Counting Engineer or write direct.

VEEDER-ROOT, HARTFORD 2, CONNECTICUT *"THE NAME THAT COUNTS"*

New York • Chicago • Los Angeles • San Francisco • Seattle • St. Louis • Greenville, S. C. • Altoona, Pa. • Montreal • *Offices and Agents in other principal cities*

Almost everyone in Middle America u


Wagner ELECTRIC MOTORS
THE CHOICE OF LEADERS IN INDUSTRY
YOU CAN BE SURE...IF IT'S Westinghouse
Complete Line of HYSTER PRODUCTS
A TRUCK OR LIFT FOR ANY PURPOSE
USES GRANITE CITY STEEL...USES GRANITE CITY STEEL...
EFFICIENCY BS&B RELIABILITY
BLACK, SIVALLS & BRYSON, INC.
FOOD FREEZERS
Amana
AIR CONDITIONERS
SEE the power! FEEL the power! in the sensational NEW OLIVERS
MANUFACTURERS OF STEEL LINE PIPE
Cal-Metal
PIPE CORPORATION
USES GRANITE CITY STEEL...USES GRANITE CITY STEEL...
DAY-BRITE Lighting Fixtures
CLEANER-BALDWIN Model A Combine Built by ALLIS-CHALMERS
NOOTER
floating ROOF STORAGE TANKS
WITH NEW PATENTED TWO POINT SUSPENSION SEAL HANGER
USES GRANITE CITY STEEL...USES GRANITE CITY STEEL...
EVERYTHING HINGES ON HAGER
TORO
POWER MOWERS
... for modern living
BUTLER
STEEL PRODUCTS
USES GRANITE CITY STEEL...USES GRANITE CITY STEEL...

BUSINESS OUTLOOK

A BUSINESS WEEK SERVICE

Foreign political difficulties (page 77) and the **bank rate muddle (page 34)** may unsettle business in this country—over the long pull.

However, **it is hard to find any evidence of short-range effects.**

In fact, **domestic business activity is at a new high and pointing higher.** You can see that from Business Week's Index (page 2).

—•—

Steel is pouring from the industry's furnaces as it **never has before,** helping to push over-all activity into new high ground.

January production of raw steel will add up to something like **12,050,000** tons. The previous record was 11,980,000 in December, while the earlier high was set last May at 11,600,000.

Much of the steel that contributed to new records early last year was, of course, going into inventory. By the same token, **not all the metal being produced now is for immediate consumption.**

However, it is hard to call the present bulge **"inventory building."**

It isn't accumulation in the customary sense. For many months, **most users will be straining just to get up to normal operating levels.** Only after that would overbuying begin to be dangerous.

—•—

Auto makers are doing their full share to chew up the steel as fast as ingots can be rolled into sheets and shapes.

January output of new cars will come to just about **690,000.**

Last week and this, **the industry has been coming very close indeed to the biggest weeks of 1955, when 180,000 cars were built.**

A good bit of the auto output is going into inventory, at the present time, just as in the case of steel.

Retail sales in the second 10 days of January improved over the first 10 and the similar period a year ago. But they didn't set the world on fire. **Inventories in dealers' hands are building,** of course.

But that was planned—to make up November-December output losses.

Auto production in January was exactly on schedule. **If sales at retail pick up the way Detroit hopes, the prospect still is for the industry to try for 2,275,000 cars in the first quarter.**

Those compact cars are doing a lot for production totals. (Chevrolet and Ford didn't set new weekly records with their standard models.)

The compacts have gone over **525,000** for the model year to date.

For January alone, output was about **165,000. And Ford's Falcon seems barely to have nosed into first place,** with output of **44,000** ahead of Rambler—with Chevrolet's Corvair coming on strong.

—•—

Registrations of imported cars tapered off gradually after mid-year, with November's 47,400 the smallest since last February.

It's still too early to say that the U. S. compacts are reducing the size of the small-car market. **Maybe it's just that foreign models are falling into the normal seasonal sales pattern**—bulging in the spring and summer and declining in the winter months.

This would be logical, what with rising competition among the imports themselves and the elimination of waiting lists.

Even with the late-year tapering of the sales curve, **the imports won't miss 600,000 sales for the year by much** (if they miss at all). Registrations through November went just over 550,000.

In all of 1958, 375,000 imported cars were sold; as recently as 1956, the figure was under 100,000 for the 12 months.

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Aluminum is heading to a good first quarter—though it may not seem spectacular alongside last summer's record operations.

Alcoa announced on Tuesday that it is reactivating a potline at its Wenatchee (Wash.) works, boosting output 4 points to 86% of capacity. This is in addition to other recent increases in the industry.

The quarter's output should go comfortably above 480,000 tons **for a gain of at least 5% over the first three months last year.** Operations are, in fact, almost exactly on last year's daily average of 5,351 tons.

Peak operations last year came in July—when a strike or price boost, or both, seemed likely. The rate then was 5,780 tons of aluminum a day.

The rate dipped a bit, but **held high through October.** Then **declining demand** dropped output to a daily rate of 5,122 tons in November. Even so, **the year set a new high** of 1,950,000 tons (the previous record having been posted in 1956 with 1,680,000).

The long strike is keeping spot copper in very tight supply.

Futures calling for nearby copper deliveries brought about 34¢ a lb. at midweek (in between the primary producers' price of 33¢ a lb. and the custom smelters' 35¢).

The buyer willing to settle for delivery in July, however, could have bought a futures contract for less than 31¼¢. A similar premium for quick delivery prevailed in London—due in no small measure to the fact that U. S. demand draws metal to New York, tightening world markets.

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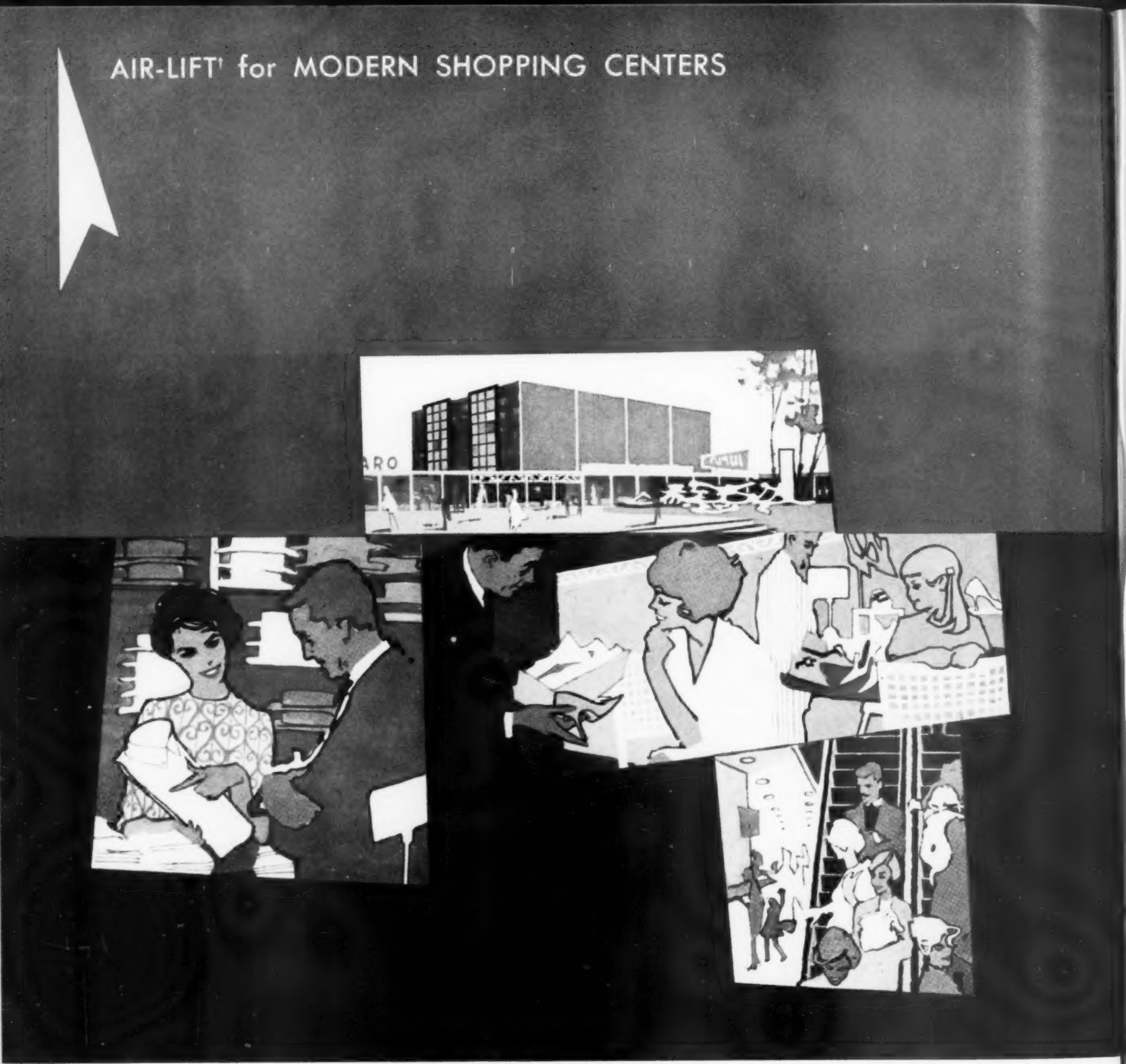
Both electric power and railway carloadings reflect business gains.

There was no real slump in **power output,** of course, even during the steel strike. But year-to-year gains were pared close to the vanishing point. By contrast, last week saw record output of 14½-billion kwh. while **the year-to-year gain widened to better than 8%.** (Cold weather contributed to last week's record, but only for a small part of the gain.)

Carloadings trailed even 1958's depressed level during the steel strike. Since mid-November, however, year-to-year gains have been posted each week. To date, 1960 is ahead of both 1958 and 1959 (though there still is a good way to go to catch up with this time in 1957.)

Radkai



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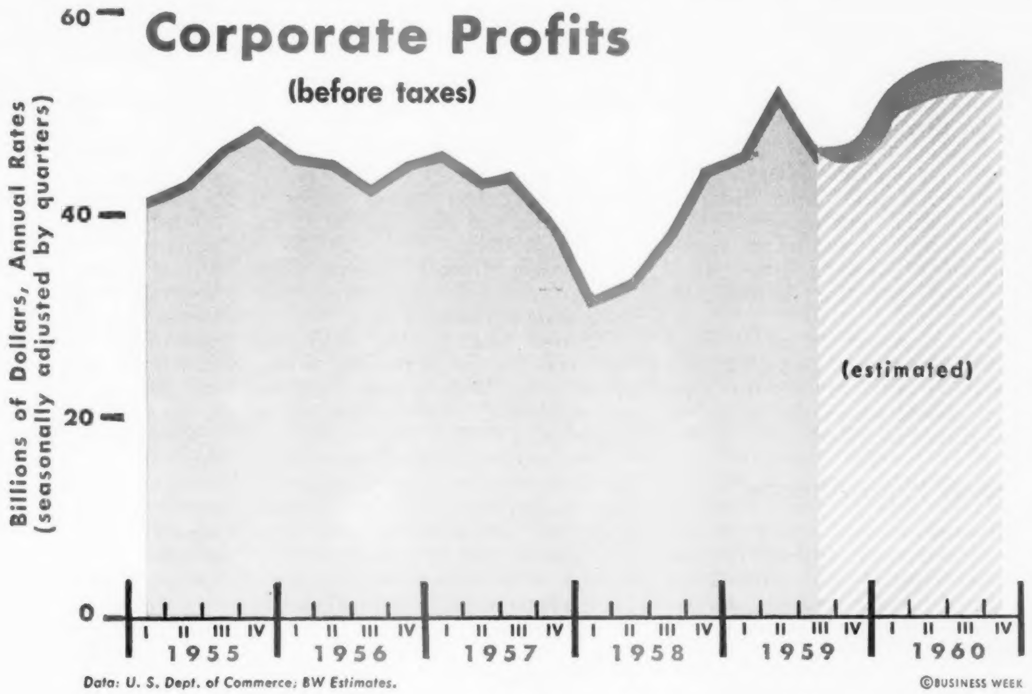


Steep Climb, Then a Plateau

That's the prospect for corporate earnings in 1960. Businessmen hesitate to predict big gains past midyear.

If you're looking for clues to the stock market's shaky performance, you don't have to look much beyond the trend in corporate profits (chart).

For 1960 as a whole, the chart shows, profits will set a new record. But the big gains will be in the first half-year, when business will benefit from gains that normally would have accrued in late 1959, but had been delayed by the long steel strike. In the last half, there's an ominous flattening of the curve that stirs uneasiness about 1961.

• **Banner 1960**—No one doubts that 1960 will be a banner year. The Treasury, lining up figures for the new budget, anticipates corporate earnings of \$51-billion before taxes (about \$27-billion after taxes). This would easily top 1959's estimated \$47-billion or \$48-billion, which in turn ran nearly 7% above the previous peak of \$44.9-billion in 1955.

Moreover, many forecasters and businessmen interviewed by BUSINESS WEEK reporters think the 1960 estimates are on the low side. They admit the influence of variables, including the likelihood that profit margins will be pinched harder as the business cycle reaches the top. But many see pretax profits of at least \$54-billion this year as well within reach.

I. Course of a Year

The Treasury's conservative projections rest on these assumptions:

• That gross national product this year will reach \$510-billion, compared with a shade over \$480-billion in 1959.

• That this is a gain in physical volume, without any rise in prices.

• That an ever more intense squeeze on profit margins will hold net earnings down.

These assumptions are all questionable. Many economists think the GNP could go well above \$510-billion. If it should go higher, so also would profits.

Then again, there's a question about prices. Most companies say they intend to hold the line, and no one foresees any runaway of prices in order to maintain profit margins. But it's hard to say today how much effect the squeeze on margins will have on the pricing policies of business all through the year. You can't even accurately weigh the pinch on margins until all the costs of the present round of wage bargaining have been tallied.

• **Last-Half Taper**—Whatever level of business they predict, most forecasters say earnings will begin to peak out in the second half, as the seasonal third-quarter slowdown sets in. They see a brisk rate of inventory rebuilding this winter and spring, with many predictions of a second quarter surging ahead of 1959's second-quarter annual rate of \$52.6-billion in before-tax earnings. But they expect only gradual gains after that.

Washington economists say only a pickup in capital spending, inventory buying, and consumer spending could

take up the slack in the last half, and they can't see any such pickup.

• **Less Room for Gain**—Part of their feeling that profits will begin flattening out late this year is based on their conclusion that the business recovery has about run its course as a stimulus to profits.

From 1954's recession total of $34.1-billion profits, they point out, 1955 profits jumped 31%. From 1958's recession, profits have already risen about 29% in 1959, leaving little apparent room for a further rise.

The gains already on the books are even more dramatic when measured by fractions of years. From first-quarter 1958, when profits dropped to a $32-billion annual rate, to the second quarter of 1959, when profits hit a $52.6-billion rate, the increase was 64.4%.

Many economists say this kind of growth in profits can't go on, but they take comfort in the thought that more stability should spread the boom out longer, at least into 1961.

II. Some Pinch Already

This week's crop of corporate reports tends to confirm the theories. A broad range of companies report a record full year for both sales and earnings—far above 1958 despite the impact of the long steel shutdown.

Shell Oil Co. chalked up a 14.6% earnings increase over 1958; Ferro Corp., 67.7%; Allied Chemical Corp., 46.2%; Rayonier, Inc., 270.7%; Scott Paper Co., 12.1%.

There were exceptions, however. Roger M. Blough, chairman of U.S. Steel Corp., reported that the company's net dropped to $253.9-million in 1959 from $301.5-million in 1958, even as sales increased to $3.643-billion from $3.472-billion. This was the toll exacted by the steel strike. This year, though, Blough expects a good year, minimizing the slight downturn that he said might occur in the second half.

But fourth-quarter earnings weren't nearly so lush as these figures indicate, partly because of a narrowing in profit margins. In the early days of recovery, profits rose faster than sales volume. That's because companies had cut costs deeply during the recession and were able to make their economies pay off. As sales started rising again, economizing became less urgent.

• **A Diminishing Return**—Monsanto Chemical Co., for example, shows full-year earnings of $48.9-million (41.8% above 1958) on sales of $615.3-million. But its fourth-quarter earnings fell 5% below 1958's fourth quarter, even though sales were 3% higher. Caterpillar Tractor Co. improved sales 33.4% from fourth quarter to fourth quarter, yet last-quarter earnings were off nearly 1%. Allied Chemical Corp. gained 6.9% in sales, yet dropped 4.4% in quarterly profits.

Some companies couldn't even boost their year's earnings, despite gains in sales volume. S. S. Kresge Co. estimates a gain of $40-million in volume, but 1959 profits won't quite match 1958's $13.7-million. Servo Corp. of America rose 30% in sales, dropped about 20% in net earnings.

Fear of a further squeeze on profit margins already haunts businessmen. A. O. Smith Corp., for example, says it faces increasing costs that jeopardize second-half gains. "I think there will be a little tighter squeeze on profit margins this year than last," says Pres. Lloyd B. Smith.

• **Surprising Minority**—However, a surprising number of executives think profit margins can hold up.

"If steel holds the line or at least waits until the end of the year to raise prices," says a Midwest maker of industrial equipment, "profit margins will be as good as in 1959."

Quite a few companies even think they can improve profit margins this year. Rockwell Mfg. Co. estimates that profits last year improved 30% on a sales gain of only 14%, and it thinks it can do even better in '60. Burroughs Corp. expects an improved profit margin to account for most of a gain in per-share profits from a little more than $1 in 1959 to upward of $1.75 in 1960.

III. Industrial Scoreboard

Conditions differ, of course, from one industry to another, and even between companies in the same industry. Some general trends are evident, however, in reports from around the country:

Steel is sure to break earnings records (BW—Jan.23'60,p47). Most of its advance in costs will be more than made up by the leverage of a high operating rate—with high fixed costs and a heavy ratio of investment to sales, the industry reaches maximum profits when sales are highest.

Many companies are expected to break past earnings records, including U. S. Steel Corp., Youngstown Sheet & Tube Co., and Inland Steel Co. However, some of the smaller companies may have problems with the price hold-down and with foreign competition.

Railroads also expect a substantial increase in earnings, estimated at around 12% on an 8% to 10% increase in traffic. Last year's earnings fell below $600-million, lowest since 1949. Any improvement depends largely on how the wage bargaining goes. The greatest optimism is expressed by Western and Midwest roads, the latter expecting to profit from better crop conditions, the competitive edge of reduced rates on grain, renewed steel shipments at a faster pace, and stepped-up shipments of autos.

Utilities are also bullish about 1960. Last year, revenues of investor-owned electric utilities hit $9.15-billion, which the Edison Electric Institute says is a new record, and earnings reached a new high of $1.67-billion. Most electric utilities look for an earnings increase of roughly 6% this year.

The gas industry generally expects a profits gain of around 5% over all. Tennessee Gas Transmission Co. talks of an 18% increase over 1959, but this is partly because the company is getting wider access to the Chicago market.

The oil industry is harder to pin down. Most oilmen say 1960 should be better than 1959, when oversupplies depressed earnings. Continental Oil Co., however, expects profit margins to keep on shrinking until the excess in refining capacity of the industry has been corrected. Its economists see the increasing demand for jet fuel as the only bright spot in the sales picture.

Retail sales should run about 6% ahead of 1959, most industry sources estimate, and the trade believes this should bring a 10% increase in earnings. The rise in volume is something of a slowdown from the gain of about 8% made in 1959 over 1958 figures. Pres. Charles H. Kellstadt of Sears, Roebuck & Co. expects the impetus for this year's sales gain to come from further expansion in consumer income and greater use of credit.

• **Troubled Waters**—Gains in profits of from 5% to 15% are also expected in a number of other industries, including autos, foods, electronics, small airplanes, and chemicals (page 82). But several other groups are having their troubles just keeping up. Along with lumber and ship construction, these include:

Aircraft manufacturing, whose future is clouded by cutbacks in defense contracts, by high start-up costs on jets, and by general shrinkage of profit margins. Douglas Aircraft Co., for example, showed a net loss of $33.8-million in its fiscal year ended Nov. 30 and doesn't see any significant reversal of the trend yet.

Airlines, whose battle for jet age traffic will strain earnings. According to William J. Hogan, vice-president (finance) of American Airlines, Inc., the high load factors enjoyed by jets last year will fall off as American and other carriers add jet capacity.

Farm equipment, where some industry executives are braced for a sales decline of 3% or more. Deere & Co. comments that it "will have to run pretty hard just to stay still." Industry experts predict that industrial business will increase substantially, but that foreign competition will cut more deeply than ever into over-all sales.

Employers Taking Tougher Line

● **Management is continuing to press the work rule issue in contract talks, despite setback in steel.**

● **Many believe this is the only choice they have if they are to regain upper hand in controlling labor costs.**

● **But with unions in no mood to give in, the outlook is for tough, possibly explosive, bargaining this year.**

A few days after the steel agreement in early January, an executive of a small manufacturing company said glumly: "We expected to ride through on the coattails of the steel companies and settle favorably with our union. Now, I just don't know what's going to happen. We need contract changes, but it's going to be hard to get any under the circumstances."

Many other employers felt the same way—at first. They had counted very strongly on a steel industry victory that would leave unions on the defensive. Instead, the United Steelworkers had weathered eight months of attack to emerge with a substantial claim to victory.

• **No Retreat**—Management's inclination to take a stiffer attitude in negotiations was put to a serious test. The outcome of that test wasn't what the unions had hoped for. Discouraged at first by the steel terms, employers in other industries have got over it quickly. They have decided, grimly in some instances, to continue their own fight for gains.

This is particularly so in the case of small and moderate-sized employers. For them, it is not so much a matter of choice as of necessity.

As a result, the continuing outlook is for management toughness—and labor struggles.

• **Union Reaction**—Obviously, the USW gains reinforced the bargaining positions of other unions. Labor's leaders capitalized on the settlement.

AFL-CIO's Industrial Union Dept. crowed: "The United Steelworkers fully frustrated and turned back the so-called 'right to manage' drive in its industry. . . . Had the companies been successful in this drive, it would have been a signal for all industrial management to begin speed-ups and job cuts."

Joseph Beirne, president of the Communication Workers, one of the major unions in bargaining this year, called the steel settlement a victory "not only for the United Steelworkers but for the entire labor movement." James B. Carey, head of the International Union of Electrical Workers, another of the key unions in 1960 negotiations, warned employers to "take another look at the mood of American workers."

• **Tough Talk**—Unquestionably, the tough talk from unions disturbed employers whose strategy had been based on the probable psychological impact in labor of a setback for the country's third largest union. But, so far, few are showing any inclination to take more conciliatory bargaining attitudes.

There are many reasons for this. One is the simple fact that many employers—probably most employers—are convinced that bargaining must be made more of a two-way street. Management has given away too much, they feel, and now must make a bargaining fight—win or lose—to recapture and preserve its ability to manage its affairs profitably.

The steel industry tried to do this, but wound up with only slight gains. Most steelmen are willing to admit the companies took a licking on the local work practices issue, however faithfully they argue that the setback really wasn't as bad as might appear.

But there was little free collective bargaining in the final stages of the steel negotiations. The government pressure for a settlement was too strong, and political and economic pressures were building up. The industry gave in to the pressures, without making the desired progress on the work practices problem.

• **Management Gains**—Where there is no such outside pressure, employers are faring better. The American Oil Co. won a tough fight to preserve management rights at its Texas City (Tex.) refinery (BW—Jan.23'60,p113). Other employers are raising rights issues—and holding firm on them—in bargaining now going on (page 89).

Employers entering bargaining this year are bucked up by the gains being made, often with little fanfare—over strong union resistance, and in many instances through employer victories in strikes.

Meanwhile, organizations such as the National Assn. of Manufacturers are doing what they can to stiffen employers' backbones even more on the "right to manage" issue. NAM's 32nd Institute on Industrial Relations to be held in Hollywood, Fla., in the middle of March will be devoted to the general subject of "The Management Function: Its Meaning and Recapture."

• **The Outlook**—Thus, these prospects are shaping up:

• The work practices or management right issue will continue to be important at bargaining tables; it's far from dead.

• Negotiations are going to be tougher, as a result. The country has gone through one of the thorniest bargaining periods in many years, and it isn't over. Bargaining will be explosive, because aggressiveness is going to show up on both sides of the table.

• Strikes will not mean, automatically, shutdowns of production facilities; this is part of management's stiffer attitude and aggressiveness. Where the issue is whether the boss is really the boss, plants can be expected to continue in operation in the face of strikes. This was rare not long ago. Despite today's union strength, it is common now in many industries.

• **A New Era**—Management's concern over weighty, often topheavy, employment costs is behind this aggressiveness; it ushered in a new era in bargaining—perceptibly in 1959, beginning perhaps a year before that.

After the steel settlement, the unions saw or said they saw a quick end to this "new era" in industrial relations. Actually, the change was not reversed; at the most, it was slowed.

Although business is good and the outlook generally is bright now, many managements are determined to begin tightening up on costs. They have a nagging worry about another recession in the making, perhaps late in 1960. And they have a perhaps more realistic worry about growing competition, domestic and from overseas, as a result of greatly expanded production facilities.

• **Pressure of Necessity**—If the new resistance to unions was on philosophic lines only, the steel industry's setback might have weakened it. But the basic factor in it is one involving profits.

Cost and competitive conditions facing employers today require a close attention to output standards, new methods and machinery, and tighter controls over work assignments and the conditions under which jobs are performed. Restrictive work practices or tradition-bound rules that create waste and inefficiencies negate the gains made possible by maximum use of cost-saving equipment.

It isn't likely that bargaining will return to its old era of one-way bargaining—with the unions pressing most of the demands—as long as this continues.

Rep. Lee Metcalf of Montana

Rep. Richard Bolling of Missouri

Rep. Chet Holifield of California

New Democratic Alignment Plugs

Young Democrats are preparing to fight for higher federal spending to boost the rate of economic growth.

For three weeks the new session of Congress has been mostly an Administration show.

In quick order, Pres. Eisenhower projected a \$4.2-billion budget surplus and followed with a budget message and economic report that made protection of the surplus the prime goal of Republican policy.

This week the Democrats are wheeling up their big weapon—control of the legislative machinery. Appropriations hearings, investigations, and committee reports are being lined up with the idea of knocking holes in the Eisenhower program.

Democrats know this will not be easy. The burning issues of a year ago—inflation and unemployment—offer less and less appeal. Democrats find themselves left with just one major economic issue—growth. They will stress this.

In practical politics, making an issue of growth means trying to stimulate more growth by increasing federal spending. Two major battlegrounds are already staked out:

The Joint Economic Committee this week issued its long-awaited report on growth, employment, and prices—marked by a fiery clash on party lines. In the report, the Democratic majority deplores the performance of the economy since the Republicans took over in 1953, claims that the Administration has curtailed growth by trying to restrain inflation with overly harsh credit restrictions. These charges are drawing white-hot rejoinders from the Republicans.

The Joint Committee has summoned Administration spokesmen to hearings, beginning next week, on the President's economic message. Treasury Secy. Robert B. Anderson, Raymond J. Saulnier, chairman of the President's Council of Economic Advisers, and William McC. Martin, chairman of the Federal Reserve Board, will be among the witnesses.

• **Fast Getaway**—Even the Democratic professionals grant that the Administration caught them flat-footed with the budget surplus and that—as a political issue—it is no pushover for an opposition party to handle.

The Administration posture, essentially, is that the country is at a new peak of prosperity and in a good position relative to Soviet military and economic threats; that nothing extraordinary is needed to stimulate faster growth; and that the most rational use of the surplus is therefore to reduce the debt (BW—Jan.16'60,p17).

Eisenhower has never before stated the conservative political position so clearly, or in terms so plainly inviting a showdown with the opposition.

• **Reaction**—The Democrats are uncertain how to react. Rep. Clarence Cannon (D-Mo.), chairman of the Appropriations Committee, says that the modest \$1.4-billion increase in spending called for in the budget is too large. He wants an even heavier dose of fiscal conservatism, and so do many of the Southern Democrats who preside as chairmen of other key committees.

• **Pro-Spending**—But a group of restless younger Democrats, many of them from marginal districts in the North and West, are preparing to make a sustained and organized fight for higher spending. They have formed a rather vague organization called the "Democratic Study Group." It has some 120 to 130 members and is led by Rep. Lee Metcalf (Montana) and Rep. Frank Thompson (New Jersey).

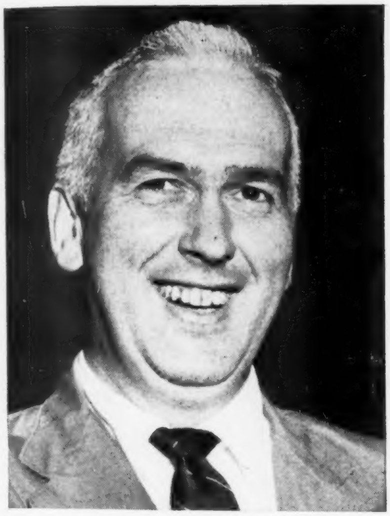
The group is selecting task forces to make special studies of such key issues as defense, school aid, civil rights, minimum wage, housing, and special aid for areas with high unemployment and general economic policy.

This is, in effect, a supplementary committee system working outside the regular committee system of the House. It has no direct power over legislation, but it's the only pro-spending group in either house that is proceeding according to a plan. It has thus far managed to escape the wrath of House Speaker Sam Rayburn, usually sensitive to any move that would undercut the regular committees.

"They are good boys," Rayburn says about the study group.

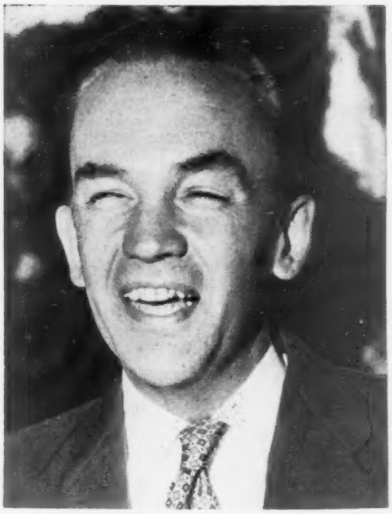
• **Rationale for Spenders**—In order to make a dent in the combination of Southern conservatives and Republicans who have a clear majority in the House, the study group needs a new and politically appealing rationale for increased spending.

Some think they have found it in a set of hearings concluded last November by the subcommittee on economic statistics of the Joint Economic Committee. These were the hearings in which an Administration stalwart, Allen W. Dulles, director of the Central Intelligence Agency, examined Soviet economic and military power and



Rep. Frank Thompson of New Jersey

Rep. John A. Blatnik of Minnesota



Rep. Frank M. Coffin of Maine

for Spending to Speed Growth

warned that the Soviets are growing faster than the U. S., and are continuing to direct most of their new output into expansion of national power.

Rep. Richard Bolling (D-Mo.), generally rated one of the ablest young Democrats in the House, guided these hearings. He is not a member of the study group, but a member of his subcommittee—Frank M. Coffin of Maine—is a vice-chairman.

• **Rallying Point**—Bolling, Coffin, and some of the other leaders among the younger Democrats believe the Soviet economic and military threat should become a rallying point for Democrats, and that the party should rush boldly for bigger outlays where the spending can be identified with national power. The House members are concentrating mostly on civilian projects: aid to schools, health research, urban renewal, and the like. They are leaving the attack on the Administration's defense spending chiefly to Senate Majority Leader Lyndon B. Johnson, who began hearings of space and military policies this week.

• **Collision on Growth**—Democrats invited a split along party lines in the Economic Committee's report on Growth, Employment, and Prices by basing their findings on what has happened to the economy since 1953, when Eisenhower took over. They see the Administration failing across the board: growth too slow, unemployment too high, and prices up because the wrong kind of anti-inflation policies were used.

The Republican minority report argues that the Democrats' use of statistics is "simply false," "statistical artifice," "phony as a 4¼ dollar bill," "obviously juggled." Democratic arguments over the present 4¼% ceiling on bonds are brushed off as political blackmail.

• **Hot Issues**—Some of the hottest exchanges in the report are on economic growth.

Democrats point to the 1947-53 period, when they controlled the White House, and growth averaged 4.6% a year. "Since then, growth has been slow, 2.3% (annually) from 1953 to 1959," they comment.

The Republicans say it is absurd to pick the 1947-53 period for "favorable comparison" when it contained one year of reconversion from World War II, "rampant inflation," and then forced-draft production to meet Korean War needs.

To get better growth in the future, the Democrats recommend that less reliance be placed on credit restraint to check inflation. But they fall short of the all-out attack on high interest rates that many Democrats in Congress were counting on.

The Republican dissenters tease the majority for toying with the idea of cheap money but doing so with "moderation and even diffidence."

For one Democrat on the committee—Rep. Wright Patman of Texas—the findings of his fellow party members on tight money are entirely too soft.

The Democrats want standby controls over consumer credit; the Republicans hold back.

The Democrats want a study made of possible ways to stabilize plant and equipment spending by industry; the Republicans are horrified.

The Democrats recommend that the Federal Reserve end its bills-only policy and make other technical changes. The Republicans prefer to leave such decisions to Federal Reserve judgment.

A majority of the Democrats want to delay acting on Eisenhower's request that the present 4¼% ceiling on long-term Treasury bonds be eased until after their own recommendations for monetary reform are in effect; this is what the Republicans label blackmail. But in a surprising alignment, Bolling and Coffin left their fellow Democrats on this issue and moved toward the Republican side. Thus, removal of the ceiling comes out with an 8-to-7 edge in the report.

To lessen the reliance on credit restriction, the Democrats urge a greater stress on anti-cyclical fiscal policy, particularly tax reduction in times of recession. The Republicans are afraid Congress will respond too slowly.

The Democrats approve of big surpluses in time of boom, and thus give Eisenhower's policy for this year a vote of approval. At the same time, they call for a re-ordering of spending priorities away from subsidies now going to some types of business and to agriculture, and toward greater emphasis on defense, foreign aid, education, research, health, and aid to depressed areas in the U. S. The Republicans will not play the "re-ordering" game.

There are some areas of agreement. Both sides want a gradual reduction in tariffs, more vigorous antitrust action, and tax reform. They agree that present farm laws are bad and that the balance of international payments situation, while serious, is not alarming. But in a committee that for years prided itself on reaching areas of inter-party agreement, the split this year is deep, wide, and unbridgeable.

Michigan Town Honors Its

ARRIVAL: Escanabans turn out at midnight to greet guests at station. While fireworks explode overhead, dealers and wives climb into cars and head for local hotels and motels.

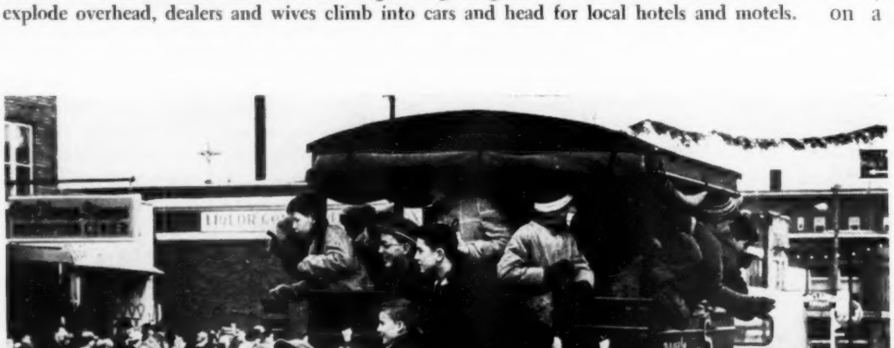
The 16,000 citizens of Escanaba, Mich., last week threw a $15,000 party (pictures) for Harnischfeger Corp. of Milwaukee, the city's largest employer. As a testimonial to an industrial benefactor, the hoe-down will go down in the city's history.

Thirteen years ago, when Harnischfeger first entered the little city located in Michigan's Upper Peninsula, Escanaba appeared headed toward oblivion. Its economy was oriented to lumbering, an industry that was declining steadily as the supply of raw material in nearby shipping areas diminished.

Escanaba's dreams of becoming the top ore port on the Great Lakes were shattered during World War II when the federal government abandoned construction of six shipping docks that were part of a plan to provide an alternate ore shipping route in case the Soo locks were knocked out. The emergency project was scrapped when the tide of war changed.

A $40,000 industrial development fund raised by the city's businessmen in 1943 brought in some new businesses, but none was large enough.

• **Love Match**—The Milwaukee company began operations in Escanaba primarily because it wanted a labor supply that would be cheaper than Milwaukee's, and trouble-free. It set up there on a modest scale, on a lease-pur-



PARADE: Mile-long parade tees off afternoon activities, which include judging of ice sculptures, hockey games, ice fishing, figure skating, log chopping and sawing contests.

TOURING: Dealers visit two Harnischfeger plants, get a first-hand look at crane and welder production lines. Harnischfeger is credited with putting Escanaba back on its feet.

Its Mainstay

chase agreement to produce welder equipment in a plant that once made butter dishes and toothpicks. Vice-Pres. Herman Menck promised to expand operations if the company and community got along together.

They hit it off famously, and Harnischfeger delivered on its promises. It enlarged its welder operations and built a new plant to make power cranes and shovels, truck cranes and soil stabilizers. Pres. Henry Harnischfeger estimates that the company's total capital investment in Escanaba is now $6-million. Last year, employment averaged about 950, compared to 500 in 1950. At present, the monthly payroll is $500,000.

• **Appreciation**—To show its appreciation for the stability Harnischfeger has given Escanaba, the city fathers last June asked for the chance to entertain the company's dealer organization.

The company brass and the 300 dealers and their wives from all over the nation who attended the shindig were overwhelmed by the community's hospitality. Hundreds of local citizens turned out at midnight Thursday in sub-freezing weather to greet the chartered train bringing their guests from Chicago. The 18-hour day started with a lumberjack breakfast, followed by a sightseeing trip—including visits to Harnischfeger's plants. Meantime, the ladies were entertained at luncheon and a fashion show.

THE WINNER: Three-skin scarf of Michigan mink is given away at drawing at style show. Other prizes include a mink hat, mink-trimmed purse—and mink corsages for all.

CONTEST: Pres. Harnischfeger pins ribbon on Big Ole—Paul Bunyan's legendary blacksmith—sculptured in ice by local pupils.

City to Boss Commuter Trains

Philadelphia sets up non-profit corporation to supervise rail service within city limits and to pay out city subsidy. Its experiments so far have worked out well.

The City of Philadelphia, already subsidizing rail commuter service within city limits, has come up with a new and more direct device to keep passenger trains on the rails.

Late in 1958, the city began to experiment with subsidies (BW–Feb.21'59, p28). In Operation Northwest, the Pennsylvania RR and the Reading Co. agreed to cut fares 20% and step up frequency of trains on their Chestnut Hill lines; in Operation Northeast, the experiment was extended to the Reading's Fox Chase line. In both projects, the city agreed to reimburse the roads, out of general funds, for the extra operating costs.

Last week, a non-profit corporation called Passenger Service Improvement Corp. of Philadelphia, Inc., was chartered to take over primary responsibility for train service within the city. It's the invention of Mayor Richardson Dilworth and City Solicitor David Berger.

• **Limited at First**—When the earlier experiments proved successful in rebuilding rail travel and reducing automobile congestion, Dilworth and Berger looked for a longer-range plan. A self-financing authority was one obvious solution, but it would need an act of the legislature, and sentiment at Harrisburg was hostile.

The non-profit corporation requires no legislative act or vote of the Philadelphia electorate. It's not the city's first venture into non-profit corporations—food markets and industrial centers came earlier, and proved successful.

At the start, the plan applies only to portions of commuter railroads that lie within the city. The corporation is organized so as to permit the suburbs eventually to join, extending the rail operation into their jurisdictions. But right now, the outlook for suburban participation is dim.

• **What It Does**—The Passenger Service Improvement Corp. will not physically operate the railroads. Instead, it will supervise the railroads' own operations of passenger service inside the city, will decide when trains should run, will set and collect fares and concession fees.

Out of all revenues—fares, plus income from such concessions as advertising and parking lots—PSIC will pay the railroads to operate the service. In the current year, total income is expected to fall $500,000 short of meeting the roads' out-of-pocket costs of about $1.4-million. To meet this deficiency, PSIC will pass along to the roads a city subsidy.

• **Improvements**—To assure that improvements can be carried out more realistically and more quickly, the city-controlled corporation includes on its board several representatives from the railroads and railway labor unions. One of its first efforts will be to drum up even more commuter business.

Already in Berger's mind are arrangements for special trains for shoppers and theatregoers and a campaign to fill up rush-hour trains on their return trips with blue-collar workers whose schedules are opposite from those of white-collar commuters.

It hasn't been decided if PSIC will own anything. The city has long talked of providing the railroads with new rolling stock and with other improvements, such as a turnaround on the Pennsy's Torresdale route. And the city has $5-million in its 1960-65 capital budget allocated for these improvements.

One plan under discussion would have the city buy the new passenger cars and lease them to the railroads directly or through PSIC. The railroads would pay just enough to amortize the bonds, which the city could float at much lower interest rates than the railroads could.

• **Meanwhile . . .**—While Philadelphia was making an effort to help itself out of the commuter problem, Boston was suffering a new blow. By a 4-to-3 vote, the Massachusetts Public Utilities Commission granted permission to the Boston & Albany RR to halt all commuter operations between Springfield and Boston on or after Apr. 1.

The B&A, operated by the New York Central RR under lease, has 39 trains that carry about 3,000 passengers a day from 16 stations along the line. If the cancellation is carried out, the road will have only four westbound and three eastbound Albany-Boston trains on this route.

In handing down its decision, the commission noted that "only approximately 1% of the population avail themselves of the service offered by the railroad."

"The fact is," said the PUC, "that the public, by diminishing use of the railroad for travel, has itself discounted the value of railroad service."

This will be the second major shutdown of rail commuting in the Boston area in 10 months. On June 30, the Old Colony branch of the New Haven RR stopped running.

De Gaulle's Algerian Foes Man the Barricades

Algeria's Europeans, bitterly intent on remaining attached to France at any price, this week dug in behind street barricades in Algiers and other key cities. Ranged against them, but offering no opposition, were troops of the French Army—whose leaders also oppose Pres. de Gaulle's policy of self-determination for Algeria.

The goal of the uprising is similar to the one that brought de Gaulle to power some 20 months ago: to keep Algeria part of France, even at the cost of indefinite war against the Algerian nationalists. Clashes at the outset left a score or more dead and a number on both sides wounded.

For de Gaulle and his Fifth Republic, the insurrection is an all-out challenge (page 77).

More Russian Space Shots

Attempt at moon landing may be timed for Khrushchev's Asian visit late in February. Meanwhile, Congress gets ready to give our laggard program a thorough going over.

While U. S. defense chiefs continue to wrangle about the significance of the latest intelligence reports on Soviet military ballistic missile capabilities, there are unmistakable signs inside Russia that a new round of space-rocket firings is being prepared—probably to coincide with the scheduled trip of Nikita Khrushchev to Southeast Asia in the latter part of February.

The best reports indicate that the Soviets will use the new long-range rocket that was tested at an 8,000-mile range in the Pacific last week. Among the tasks assigned to the giant new rocket: gentle planting of the first automatically controlled space station on the surface of the moon and a possible lofting of a man on a short trip up to the fringes of the earth's atmosphere and back.

• **Power to Burn**—The best time for a moon shot, during February, will be around the 19th or 20th. But with the tremendous thrust the Soviets have reportedly built into the first of their fourth generation of rocket boosters, strict adherence to a particular firing date should not be necessary.

Official details as to what the latest Soviet rocket booster looks like have not been released. But in an interview with foreign newsmen, Anatoly A. Blagonravov, of the Soviet Academy of Sciences, said in Nice last week that the first stage rocket engine has a thrust "three or four times greater than the largest Soviet intercontinental ballistic missile engine." Since the thrust of the T-3B is generally rated at 700,000 to 850,000 lb., this would indicate that the first stage space booster, at a minimum, is capable of delivering 2-million lb. of thrust—twice that of NASA's Saturn, on which testing will start early this spring. And its thrust could well be over 3-million lb.

• **Refined Guidance**—If Soviet claims are correct (and there is no evidence to suggest they are exaggerated), the new space booster also boasts a refined guidance system. At a range of over 8,000 miles, the first rocket dropped its nose cone just a little more than a mile off target, according to the Russians. U. S. rocket experts are wary, but suggest that such pinpoint shooting is not possible either with radio control or with a completely self contained inertial type of guidance system. The Russians, they speculate, probably have developed a complicated cross-correlated guidance mechanism that automatically checks and corrects the mighty rocket's course in flight. To make such a system work, the rocket must also be equipped with sophisticated power systems—perhaps auxiliary solid-fuel steering rockets—that can be fired by the missile's brain to correct any navigation deviation that it has spotted.

This is the type of guidance and control system that will be needed when man climbs inside the first nose cone of a rocket for a round trip to the moon or Mars.

• **Congress Action**—Meanwhile, in Washington, Congress has yet to tackle Pres. Eisenhower's request that it streamline the working arrangement of the National Aeronautics & Space Administration by trimming out some of its deadwood. There is also the matter of NASA's budget to be discussed. Two NASA committees that Eisenhower would especially like to see disbanded are the nine-member Space Council (set up to advise him on what the major functions and policies of the U. S. space effort should be) and the Civilian-Military Liaison Committee (set up to iron out differences between NASA and the Defense Dept. on space matters). If Congress should go along with disbanding these committees, the freedom of NASA Administrator T. Keith Glennan to make decisions would be increased materially.

• **Contracts**—At the moment, the House Committee on Science & Astronautics, chaired by Overton Brooks (D-La.), seems more interested in the contract letting activities of NASA than in streamlining its organizational chart. Again this week, Glennan refused to show the Brooks committee his contract files, on grounds of executive privilege.

The committee schedule is to call NASA and military witnesses until Feb. 19, then shift to industry witnesses for the rest of the month. Committeemen want to know, for example, why McDonnell Aircraft got a big contract for the Mercury man-in-space capsule, when the many scientists now believe that the Mercury concept may be obsolete before it's used, and when the committee hears it was tenth highest of 12 bidders.

Since all NASA contracts for components of space vehicles are negotiated, such matters should be aired, according to Brooks.

In the Senate, Lyndon Johnson's Aeronautical & Space Committee has not yet met to consider the request for a streamlined NASA. When it does meet, perhaps early in February, it is not expected to develop much support for the idea that one more administrative shakeup will be enough to get NASA back in the space race. The feeling in Washington is that the committee is more likely to try to trace back the responsibility for the flounderings of the space program. This investigation could really get hot if it is confronted by a successful Russian shot at the moon. Right now, the U. S. has no moon shots scheduled, but a Thor-Able IV will attempt to put a satellite into sun orbit in two or three months.

NASA's budget will come in for Congressional criticism. The legislators are sure to argue that the Administration has spent too little, too late. To stifle such claims, the President has already told Congress his new budget about doubles expenditures for nonmilitary space projects in the coming year. The arithmetic bears the President out on this point. NASA spending in fiscal 1960 is estimated at $300-million, and it is scheduled to climb to $600-million in fiscal 1961.

Argument arises over the space agency's authority to let new contracts. This is the "obligational authority" that shows up as spending over the next two, three, and four years. This is now doubled in Eisenhower's budget.

Congress voted NASA slightly over $500-million in new obligational money for the current fiscal year, and a supplemental request for $23-million more has been submitted.

For the coming fiscal year—starting June 30—the agency has asked for $802-million. But this includes $140-million to be spent on Saturn—the 8-Jupiter-1-Redstone cluster system that NASA took over from the Army last Fall. Thus, NASA's net increase in contract authority in fiscal 1961 would be only $139-million.

• **Spending Plans**—Here's a look at NASA's tentative plans for spending its $802-million in fiscal 1961:

• Saturn is to get $140-million. Two other programs, Delta and Centaur, will get $59.5-million. Some $60.8-million will go for space propulsion technology, including $40-million for work on liquid rockets, $10-million on nuclear systems, $2.8-million for solid rockets, and $8-million on space power technology.

• Outside of the Saturn program, the biggest single chunk of NASA's money is slated for its man-in-space-in-1961 program. Project Mercury will get some $107.7-million.

The budget is also geared to accommodate four deep space experiments—Moon, Venus, and the like—plus eight earth satellite experiments. This, however, is just about the same level as for 1960.

The Big Attacks on Oil

1906-1911: THE STANDARD OIL CASE — **A five-year government fight against the Standard Oil Co. (New Jersey) and 34 other oil companies ended with a consent decree dissolving the Jersey combine.**

1936-1938: THE MADISON CASE — **So called for the Wisconsin capital, where a federal grand jury accused 25 oil companies of conspiring to boost prices to jobbers and consumers in Midwest markets. Eventually, $105,000 in fines were collected.**

1940-1951: THE MOTHER HUBBARD CASE — **The Justice Dept. threw monopoly and price-fixing charges against the American Petroleum Institute, 22 major companies, 344 subsidiaries and affiliates. By 1951, all charges had been dismissed.**

1950-1959: THE WEST COAST CASE — **Nine major companies were charged with a price-production conspiracy in violation of the Sherman Act. A consent decree was signed in 1959 by all companies except Texaco, which still faces the possibility of trial.**

1953-1960: INTERNATIONAL CARTEL CASE — **Five giant companies were charged in 1953 with conspiring to suppress competition in foreign production and marketing of oil and with regulating U. S. imports through worldwide cartel arrangements. The case is still in pre-trial stages.**

1958-1960: THE TULSA CASE — **Twenty-nine oil companies face trial starting Feb. 1 in Tulsa, Okla., on charges of price-fixing on gasoline and crude oil.**

Post-Suez Price Hikes Bring Oilmen to Court

Business pressures set in motion by Pres. Nasser's seizure of the Suez Canal in 1956 lie behind the legal fight that will begin in a Tulsa, Okla., federal courtroom next week.

On Monday, 29 U. S. oil companies are scheduled to go on trial before District Judge Royce H. Savage on criminal antitrust charges, in the most recent of a long series of antitrust actions in oil (table). The simple legal question involved this time: Did the oil industry engage in an illegal conspiracy to raise the prices of crude oil and gasoline in January, 1957?

Preparations for the trial have been massive. The preliminary negotiations between attorneys qualify it as probably the most thoroughly "pre-tried" case in antitrust history.

• **Suez to Tulsa**—The background begins with the Suez crisis and continues through a round of Congressional investigations and a grand jury indictment in Alexandria, Va., to the Tulsa court. Companies won a transfer of the case from Alexandria to Tulsa on grounds of convenience in producing their witnesses.

By agreement of both sides, Judge Savage will hear and decide the case. There will be no jury.

• **Implied Evidence**—The government has no open-and-shut evidence of a written agreement or a meeting to support its central charge of conspiracy. Antitrust lawyers admit their case rests on what can be implied from multitudinous company documents, the opportunities that existed in telephone calls and public statements to further an agreement, the circumstances of the industry at the time of the price increase, and the outward actions of the 29 companies.

Actually, the only legal penalty the government can win is a $50,000 fine from each company. Nevertheless, the companies are prepared to fight hard to avoid being branded a non-competitive, price-fixing industry. Down through the years, under Democratic or Republican Administrations, suspicion of price-fixing has been an integral part of almost every attack or government suit against the oil industry.

If the government loses, of course, that ends the case. But if the government wins, it would almost certainly file a civil suit to obtain injunctions against future price-fixing in the industry.

• **Upping Prices**—Here's the story the prosecutors will present: Shortly after Nasser seized the canal in July, 1956, the U. S. government formed the Middle East Emergency Committee, made up of major oil companies, to plan assistance for Europe in case of an oil shortage. By the end of the year, the government had put its MEEC plan in motion, and the Attorney General had approved, with revisions, a "plan of action" for MEEC companies.

The domestic price increase came early in January, 1957, when Humble Oil & Refining Co. increased prices for both crude and gasoline. Almost immediately, the other U. S. companies followed suit with crude price increases ranging from 25¢ to 45¢ per bbl. and gasoline increasing generally 1¢ per gal.

Shortly after the price increases, Congressional committees and the antitrusters started investigating. The Congressional investigations started primarily to find antitrust violations but wound up inconclusively. The industry claimed testimony supported a crude price hike as long overdue and justified by rising costs of finding and producing oil over the past several years.

But the antitrust grand jury found evidence substantial enough to bring the companies to trial.

• **Allegations**—The government's case is based on these key assertions, which must now be proved to Judge Savage's satisfaction:

• Almost simultaneous, market-wide crude oil and gasoline price increases were carried out by the 29 companies in January, 1957, when market conditions made general price increases unlikely.

• Concerted action to cause a general price increase was anticipated in the prior planning of some companies, was invited by public statements, and is shown by direct discussion between companies.

• Each of the 29 companies took part in the scheme to increase prices by concerted action.

Most of the evidence to be offered is in documents and reports given to the grand jury by individual companies. The government's briefs are full of statements made by various company officials at various times—some obviously damaging in themselves, others damaging only if they are found to be part of the whole fabric that the government says is conspiracy evidence.

Worldwide Interest Rate War?

That's what many bankers fear. The size of the Bank of England's bank rate boost—from 4% all the way to 5%—surprised them. They fear a chain reaction in world markets.

Financial markets throughout the free world are worrying this week about interest rates. Last week, the Bank of England raised its bank rate from 4% to 5%. The move itself was no surprise to sophisticated financial circles, but the amount of the increase—one full point—was a shock. In many places, it provoked fears of an interest rate war, followed by a financial crisis.

This fear was openly expressed by the French. In Paris, government officials made clear they were upset by the British action. The Bank of France's discount rate has been held at 4% since last April and, despite a fairly easy credit policy, the franc has strengthened. Now the French are afraid their reserves may suffer as funds flow to Britain in search of the higher interest at the same time that borrowers try to take advantage of the lower French rates. A hike in their own rates might protect reserves, but it might also halt the expansion of the French economy.

• **Rate War Pooh-Poohed**—In London, Washington, and Bonn, central bankers and government financial men tried to play down talk of a rate war. Official British spokesmen emphasized that the rate was raised because of domestic conditions. They pointed out that business plans for capital spending have been revised sharply upward. Monetary restraint—signaled by the increase in the bank rate—was ordered to keep economic activity from spinning out of control. The reason was not, officials said, the outflow of funds from Britain after Germany and the U. S. hiked their rates last fall—this had "not caused concern."

But in London's City, this explanation did not cut much ice. It has been easier and cheaper to borrow in Britain than in the U. S., and a number of big corporations have taken advantage of this situation. Moreover, while Britain's balance of payments is in good shape, its reserves have been declining lately because of the higher rates elsewhere.

• **German Relief**—In Bonn, German officials came right out and attributed the Bank of England's action to the outflow of funds. Germany's central bank, the Bundesbank, hiked its discount rate twice last fall—to 3% in September and to 4% late in October. This caused its open market rates to rise above those in Britain. Ever since, Germany has been gaining funds from London—and has been criticized for initiating interest rate competition. This week, German officials expressed relief at the British action. And they vigorously denied contemplating a rate increase of their own as a countermeasure.

In Washington, Federal Reserve officials took much the same view. They had discussed the move with the British beforehand and apparently felt it would not cause real trouble. The Fed's own discount rate is at 4%, well below Britain's, but most open market rates in New York are on a par with London's; so there's little fear of a big outflow of funds. If the Fed did increase rates again, says one official, it would be because of a new upsurge in domestic demand for credit.

• **Global Impact**—But unofficial observers think it will be difficult to keep rates stable all over the world. Today, for the first time since the gold standard days of the 1920s, the international standing of a nation's currency is a major concern.

This represents a complete reversal of the trend that began in the 1930s and lasted beyond World War II. That trend placed priority on domestic growth and stability. The change back toward orthodoxy began in the early 1950s, when many European countries faced severe inflationary pressures. Nations such as West Germany and Britain successfully used deflationary measures to rebuild their reserves and were able, at the same time, to maintain relatively full employment. This success has brought about a return to the practices prevailing under the gold standard.

• **Stopping the Drain**—Under the rules of the gold standard, the first aim of economic policy was to maintain a stable exchange rate. If a country found itself losing gold, it hiked interest rates and restricted credit at home; this forced a reduction in prices and a rise in unemployment. This deflationary purge helped stop the gold drain and usually brought an increase in production and employment—which started gold flowing back.

But in the 1920s these rules failed to prevent a series of exchange crises. And Britain's economy was crippled by its vain attempt to stick to the gold standard by means of a massive deflationary program. The gold standard was finally abandoned simply because it became politically and socially intolerable.

• **Ideas Revived**—Now the gold standard ideology—if not the gold standard itself—has been resurrected. With most currencies freely convertible, Western countries feel that price stability is fully as important externally as internally.

This viewpoint has been expressed most forcibly by Per Jacobsson, head of the International Monetary Fund. In a recent speech, he advanced the notion that new monetary rules were needed as a "synthesis" between those of the gold standard and those of the 1930s. There's no doubt, though, that he was urging an objective standard of some sort, such as gold. He added that "many of the gold standard rules are still valid, even though . . . they have often to be applied in modified form."

• **Success to Start**—At the least, the Bank of England's move seems consistent with gold standard rules. By moving up one point, the bank hopes to sustain a boom on one hand and keep its reserves strong on the other. Initially, it has been successful: Money was reported moving back to London this week.

But if London attracts a lot of capital at the expense of other nations, then retaliation will follow. And that could mean higher interest rates in one country after another—a spiral that could end in a worldwide deflationary crash.

It's doubtful, though, whether the U. S. or any other Western power really would sacrifice internal stability to support the value of its currency in international markets. If a crisis loomed, they would be much more reluctant than before to abide by the rules.

• **Today's Worries**—There's no crisis yet—and officials in most countries seem fairly confident that none will develop. Germany, for one, has taken steps to prevent short-term funds from flowing either in or out in any quantity, by subjecting banks to higher reserve requirements on short-term foreign funds and on domestic deposits. But Germany is worried about inflation at home. Wage rates are expected to rise about 10% this year, and this may bring a hefty increase in prices.

The U. S. also faces the threat of an outflow to Britain. However, Fed officials think the flow should be minimized by a budget surplus and its own policy of credit restraint.

Some central bankers—and a great many unofficial observers—would prefer to take no chances. They are talking in terms of a monetary conference that would seek to reconcile the problems of attaining both domestic and external stability. The IMF might take the lead in exploring this ground. That way, no one country would have to take the initiative—and find itself beleaguered by a run on its reserves.

In Business

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World Trade Center Proposed to Save Blighted River Area Near Wall Street

A huge World Trade center was proposed this week to put new life into the blighted East River area that lies just east of New York's financial district. **The center would have two—or perhaps three—large buildings on a 13½-acre tract centered on the river end of Wall Street.**

The Downtown-Lower Manhattan Assn. made the proposal as a follow-up to its earlier, more generalized redevelopment suggestion (BW—Oct.18'58,p32). Over-all, there would be at least 5-million sq. ft. of floor space. One large, comparatively low building, the World Trade Mart, would house importers, exporters, and the companies that serve them. To the south of it, a skyscraper of at least 50 stories would house a hotel, plus offices for companies and government agencies connected with international trade. The third building, a Central Securities Exchange, would become an integral part of the plan if the New York Stock Exchange agreed to become a tenant.

The association suggested that the Port of New York Authority prepare specific recommendations for the project, which it guessed would cost around $250-million.

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Syracuse Communications Study Center Set Up By $2-Million Newhouse Gift

Samuel I. Newhouse, the publisher, has started Syracuse University off with a $2-million gift to set up what is billed as **the biggest-ever center for studying journalism, television, and mass communications generally.**

In making the gift, Newhouse said there was plenty more where that came from. The center will be the No. 1 concern of the Newhouse Foundation, set up by the publisher and his wife. When Newhouse dies the foundation will receive 90% of his fortune, now estimated at well over $100-million.

Newhouse owns 14 newspapers, Conde Nast Publications, and an assortment of TV and radio stations.

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Pittsburgh Warehouse Steel Prices Cut; No Link to St. Louis Move Seen

There was down-side activity again this week in warehouse prices of steel—this time in Pittsburgh where increases and decreases figured out to **an over-all $1-a-ton cut by Joseph T. Ryerson & Son, the biggest warehouse chain.** Last week, U. S. Steel's Supply Div. cut St. Louis prices of hot-rolled products (BW—Jan.23'60,p38).

Trade sources in Pittsburgh doubted the cuts were related. They thought the U. S. Steel move was a reaction to local price shading in St. Louis, and so unlikely to spread. The Ryerson cuts, on the contrary, were considered to be simply a tinkering with price adjustments made a year ago to woo buyers larger than the usual warehouse customers. Then, Ryerson had reduced prices on large orders, and boosted rates for smaller customers. **So, it was felt the Pittsburgh readjustments might spread to other cities with Ryerson warehouses.**

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Business Briefs

While a Senate committee dug into prices and profits of tranquilizers, the Justice Dept. at midweek tossed **an antitrust suit at Carter Products, Inc., and American Home Products Corp., makers of Miltown and Equanil.** The price-fixing and monopoly charges will be based partly on the Senate revelation that the companies submit identical bids to government hospitals, though their costs are different since AHP pays royalties to Carter.

Crane Co., Chicago plumbing manufacturer, was down to its last four directors—exactly a quorum—this week **after the resignations of Alfons Landa, Washington lawyer, and Edwin A. Locke, president of Union Tank Car Co.** Landa said he was quitting because of differences over business philosophies and methods with Thomas M. Evans, chairman and chief executive officer of Crane. Locke offered no explanation, but insiders said he had lost confidence in the company and its management.

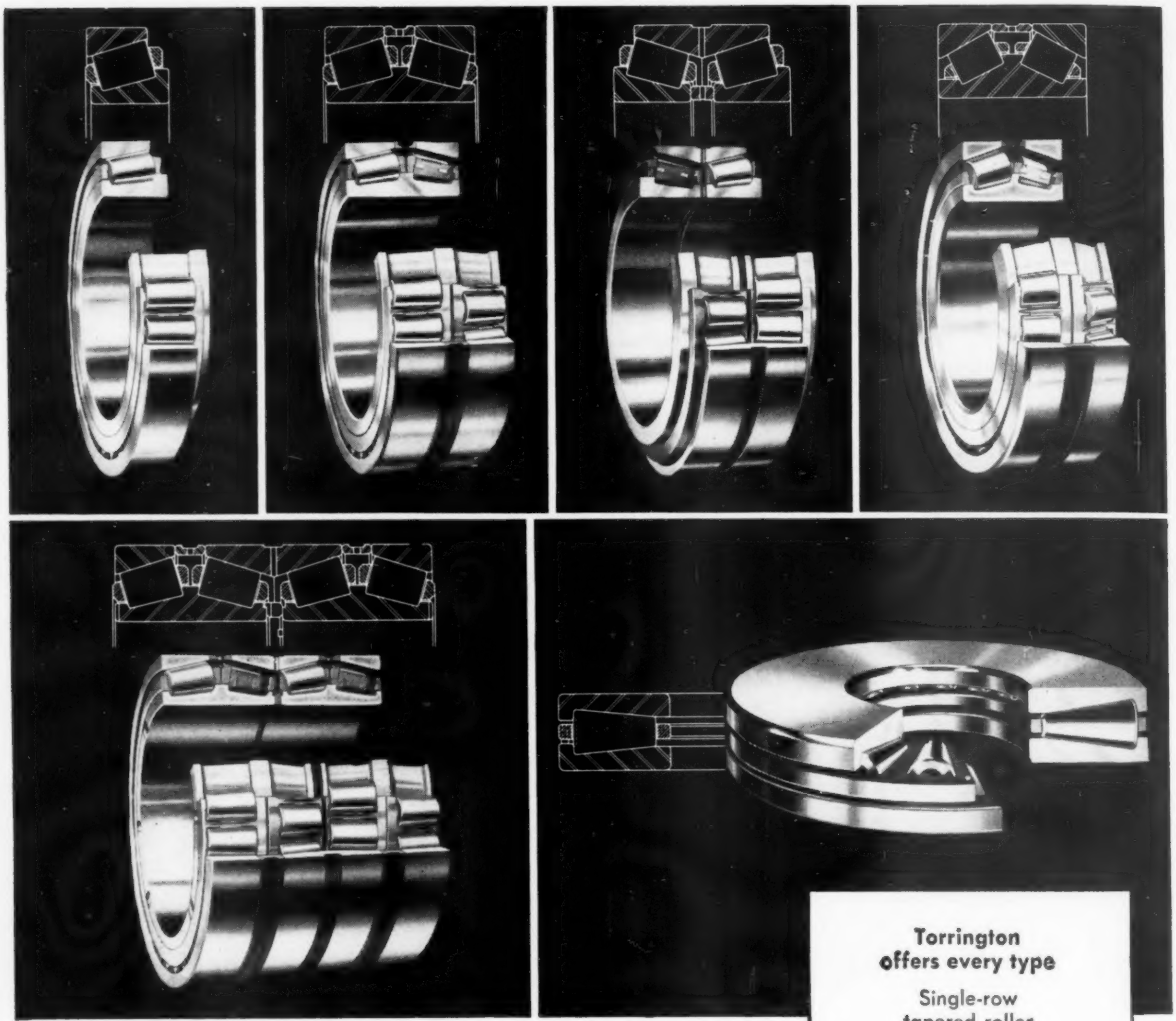
The International Air Transport Assn. this week called a special meeting of its Traffic Conference, and industry observers saw an indication that the **international airlines felt fairly sure they could end their rate-making impasse** (BW—Jan.2'60,p36). Meanwhile, transatlantic carriers plan to drop jet surcharges on Mar. 1.

Hughes Aircraft Co. this week unveiled **a new type radiation detector** that works on a piece of "doped" silicon smaller than a pin head. It runs on low voltages, needs no maintenance, and is said to be extremely stable under environmental stress. Applications include space research, military detection, nuclear power control, and radiation therapy.

The first Atlas ICBM base east of the Mississippi will be built at Plattsburgh, N. Y., the Pentagon announced this week. In all, 11 Atlas bases around the country should be completed within two years. Each will cost $47-million and house a 10-missile squadron, except for the three-squadron base at Cheyenne.

The buying power of U. S. factory workers rose 2½% during November, the Bureau of Labor Statistics reports. The rise came from a slight dip in consumer prices (BW—Jan.23'60,p116) plus increased take-home pay in the rebound from the steel strike.

Long-distance TV and telephone transmission through 3-in. metal "pipes" is being tested by IT&T in England. The patented method, called "pulse code modulation," **can handle simultaneously up to 400 TV channels or several hundred thousand phone calls.**



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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
JAN. 30, 1960

A BUSINESS WEEK
SERVICE

A rough and tumble, vituperative Presidential campaign is the prospect.

Democrats set the tone. Their campaign kickoff dinner in the capital last weekend was only the prelude, and a mild one at that, to what you can expect in the months ahead as the party zeroes in on Vice-Pres. Nixon and Pres. Eisenhower. The Vice-President will be the prime target. Democrats want to goad him to anger, get him off balance, destroy the image of high-level campaigner working on the peace and prosperity theme of the GOP. Nixon knows it, and is determined to avoid the pitfall. The test for him will be a severe one.

Note the oratorical trend reflected in some of the attention-catching key phrases offered up by the Democrats:

"Juvenile delinquent"—the language of Sen. Hubert Humphrey in a reference to Nixon's political past.

"Sir Richard the Nimble"—the appellation applied to Nixon by Sen. Stuart Symington.

"Worst Administration since Grant's"—Harry S. Truman's appraisal of the two Eisenhower terms, a concept borrowed without credit, incidentally, from Oregon's free-wheeling Sen. Wayne Morse.

Some Democrats seriously question the effectiveness of this approach. It is not that they shrink from the language. Most of them recognize it as a part of the game, at proper times and places. But many a Democrat feels that 1960 is not the time and that the coming Presidential contest is not the place. So deep is the resentment against Nixon's past campaign tactics, however, that the urge to indulge in personalities cannot be squelched—especially since the GOP has preempted the appealing, overriding issues of prosperity and peace.

Democrats' White House hopes are still alive—but only faintly, as of now. There is as much confusion as ever about the probable identity of the party's nominee. As time wears on, there is more willingness to acknowledge that whoever he may be he faces an uphill battle against Nixon.

The party's uneasiness is poorly concealed. The campaign kickoff dinner was a financial success (to the tune of about $200,000), but as an artistic venture it was something less.

Reasons for Democratic pessimism increase. Current popularity polls show Nixon ahead of Sen. John F. Kennedy, leading Democratic hopeful of the moment. This obviously jars party professionals, whose leading question about any potential nominee is: Can he win?

Symington appears uncomfortable in trying for a new role as a "give 'em hell" campaigner in the fashion of Harry Truman. Humphrey is the party's best orator, but the South would run away from him. Sen. Lyndon B. Johnson, on the other hand, is suspect in the North and East because he is emerging as the candidate who will get southwide support in the convention.

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Nixon's preparations for the summer-fall campaign go forward steadily and quietly. There are some minor irritations, but nothing his advisers think he cannot deal with effectively when the time comes.

WASHINGTON BUREAU
JAN. 30, 1960

He was key man in reorganizing the House GOP campaign committee following the death of its chairman, Rep. Richard M. Simpson. Behind scenes, Nixon virtually dictated the choice of Rep. William E. Miller of New York for the job. Now, through Miller, the Nixon forces will exert strong pressures across the country to get aggressive, personable Republican House candidates—friendly to the Vice-President, naturally—onto the ballot this fall.

Nixon will be a hard-hitting, partisan campaigner, but the evolving strategy calls for him to avoid the name-calling duel that Democrats would like to lure him into. The Vice-President's advisers think this would damage his present stature, help only his opposition.

The steel settlement causes some lingering uneasiness in the Nixon camp. Criticism of the terms and of Nixon's role in the settlement still shows up. Nixon's people count on it to fade away in the weeks and months ahead. The Vice-President's public letter to the editor of the Syracuse Herald-Journal this week, defending both his own position and the actual terms of settlement, is intended to allay the criticism—especially that still coming from "Old Guard" elements in the GOP.

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The angry political fight about the so-called missile gap and what it means is hardly producing much light. It is so colored by politics that nothing short of revealing basic intelligence reports is likely to be helpful—and, even if that were to happen, there would be argument about interpretation.

One thing is clear:

Eisenhower believes Russian missile strength has been overestimated. About two years ago, Rand Corp. predicted that Russia would have 300 operational ICBMs by 1960. New appraisals lead the Administration to believe the Russians have nowhere near that many. In summary, this view contains two basics: The Soviet has only a "moderate numerical superiority" in prospect for the near future, and even with a maximum effort Russia could not destroy our ability to retaliate with a devastating attack on the Soviet.

Defense Secy. Thomas Gates' testimony added to the confusion. He told Congress that Soviet "intentions" are now a basic reference point in intelligence estimates on Soviet power. Democrats interpreted this instantly to mean "guessing." Gates supplied the opportunity for the outcry, but it is apparent now that he was misinterpreted. Administration sources insist we have more and better intelligence and, in any event, still take account of both "capabilities" and "intentions" in arriving at any conclusions.

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Congress is off to a slow start. After more than three weeks, the House has passed only one minor bill, relating to immigration. The Senate's three passed bills include only one major item—the "clean elections" measure that seems destined to perish in the House.

Congresses have a way of moving quickly when they have to, but the probability is increasing that this session—to be interrupted in July for the Presidential conventions and thereafter for the elections—will have to finish its work in the late fall. The Senate could easily be tied up for a month in the civil rights debate due to begin in mid-February.

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"I have been driving Chevrolets since my husband and I have been married. My husband and his family owned Chevrolets for many years before that."

"Good cars, just bought a new pick-up today. Don't like tail fins on '59 and '60."

"I'm the owner of 1958 Chevrolet Biscayne power glide. I get approximately 12 miles per gallon of gas. I feel Chevrolet can improve on this."

"... the service you get from a Chevrolet you can't get in no other car ..."

"Chevrolet, Plymouth, and Ford all made the mistake of going all out for horsepower ... The small economy cars are not the answer ..."

"The engine is wonderful, the gears too; but the body is impossible! The body gets worse every model."

"I have owned 16 Chevrolets. I bought the first one in 1923 ..."

"I have owned nothing but Chevrolet cars and trucks since 1928."

Chevy Urges Buyers to Grouse

The comments printed above come from the newest and perhaps rarest chance to talk back that any automobile manufacturer has ever given the customer. The quotes are from members of a permanent panel of owners that Chevrolet is pulling together to ask, in effect: "How do we keep customers happy?"

There's a lot riding on the answer. The sameness of U.S.-made cars in the late Fifties did more than open a market for imported and smaller cars; by offering so little to choose between cars of different make, it weakened brand loyalty. It used to be that when Chevrolet surveyed its owners on their intentions to buy a new car, more than 80% would reply they were going to buy another Chevy. Last spring, when such a survey was made, only 65% said they would stick with Chevrolet.

• **Huge Repeat Market**—Chevrolet has more owners than any other car manufacturer, about 17-million, including

"Engine hood needs to be fastened down more securely . . ."

owners of trucks. That's a ready-made repeat market—when it can be cashed. It is the biggest reason Chevy so often outsells Ford. But in 1957 and again in 1959, Ford won the sales race. So Chevrolet management is drumming into its own people and its dealers the slogan: "A satisfied owner is our most valuable asset and should be treated that way—always."

• **Personal Interest**—Chevy's campaign to keep customers satisfied goes far beyond anything previously attempted by an auto company. The owner panel is only part of it. Nearly every new-car customer at some time or another receives a questionnaire about his purchase, generally from a professional market survey organization whose client may or may not be the company that made the car.

Chevy, however, is taking the direct approach. Its new Owner Relations Dept. is prying into many subjects, from how a salesman acts to how an owner can care for his car. From here on out, anyone who buys a new Chevrolet can expect to hear frequently from the factory and dealership.

First he'll get a "Thank You" letter from General Sales Manager K. E. "Gene" Staley; later he may get a booklet asking questions about the car and service, or he may be asked to join an owner panel. The man who sold him the car will call to ask how he likes it and if he has any problems.

And, beginning in March, Staley and his manager of owner relations, M. W. Worden, will meet face-to-face with small groups of owners throughout the country to hear what they have to say.

This is such a complete turnabout from the way the auto business supposedly is run that a cynic could wonder what deviousness Staley is up to. The answer is: nothing.

"We ought to have the courage to find out what they think of us," he says.

I. Why They Complain

What the owners think has preyed on Gene Staley's mind for a long time. About three years ago, when he was assistant general sales manager, he was

making the circuit of dealer meetings with Edward N. Cole, Chevrolet general manager. At a meeting in New York City, Cole told the dealers that he had a three-point program: build a car that could be delivered by the dealers with a minimum of preparation; deliver it to dealers faster, and give better service to dealers.

"We were playing gin rummy on a plane to Washington," Staley recalls, "and I said to him, 'Ed, there's another point, Number 4 or maybe even 3A—better service to owners.' He looked at me, looked at the cards, and said, 'Your deal.'"

One morning last summer, Cole called Staley in and said he was going to be the new general sales manager. Staley replied that, if he was, he wanted a budget for an Owner Relations Dept. Cole gave it to him and has backed the program ever since.

• **Grounds for Complaint**—Staley already knew the components of the problem of dwindling owner loyalty. More than 50% of the complaints from customers did not concern the product. The customers complained about treatment by the salesmen, the time it took to get delivery on the new car, the fact that no one checked them out on the car—they were just handed the keys and told good-by. No one got in touch with them later to see if they had a problem. Service was hard to get.

To clean up the complaints, Chevrolet is working with its own people and its dealers and, concurrently but in a different way, with the owners.

II. "Dear Hindsighters"

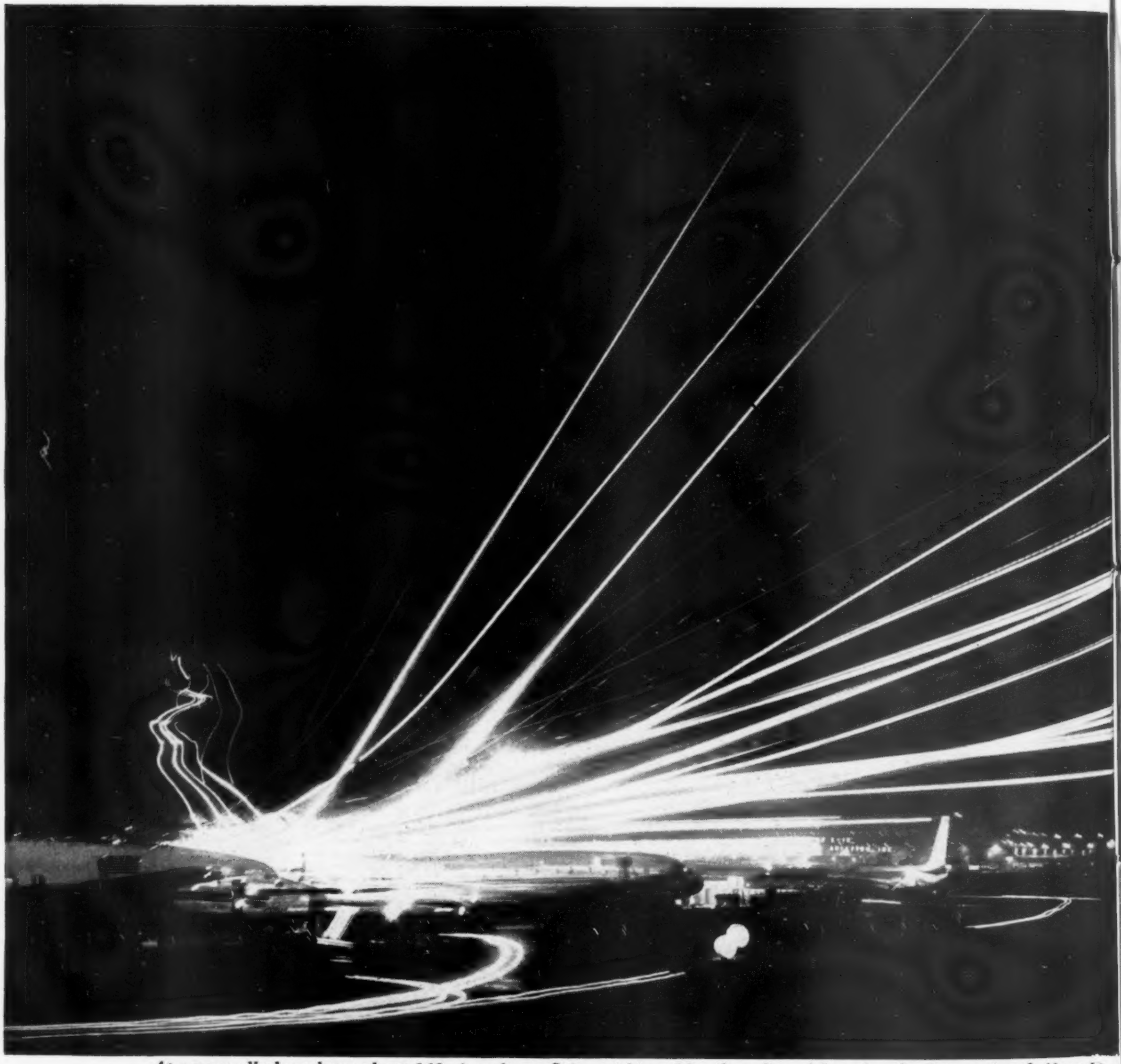
The major weapon in getting everyone connected with Chevy to think about making owners happy are the "Forward Development Boards." Right now there are four of them: service, distribution (getting the car to the customer), sales promotion, and parts and accessories. A typical board consists of a Chevrolet regional manager, a zone manager, a city manager, regional department head for the applicable subject; a zone department head; five district managers, and five dealers, with Worden as chairman of all the boards.

These boards will meet several times a year for three days and hash over matters in their spheres of interest. The meetings are free-for-all discussions, with every word picked up on a tape recorder. From the discussion come recommendations to Chevrolet departments (such as the service department), and the department must pass the recommendation along, with comments, to Chevy's top management.

• **Service Confab**—The board on service met in October and will come together again next month. There have been meetings, also, of the car distribution

CREATING A NEW WORLD WITH ELECTRONICS

Rush hour in



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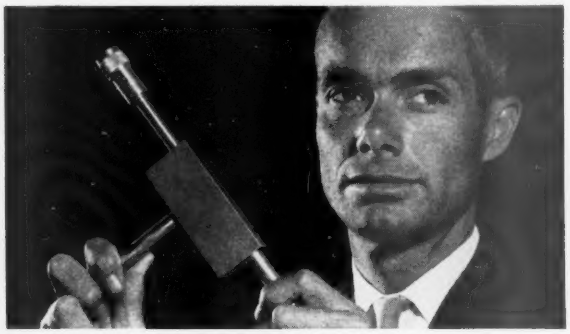

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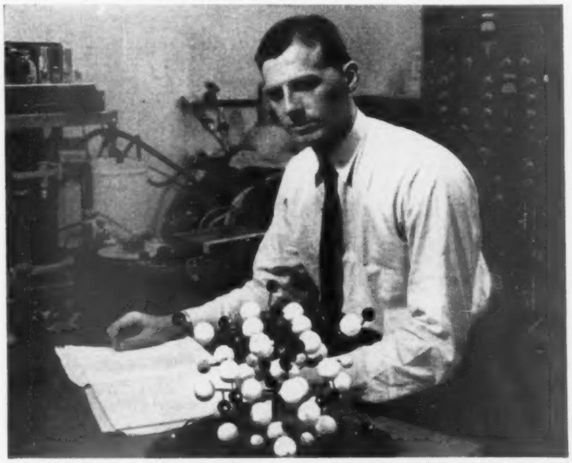

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"I hope you will allow a fisherman a voice in designing body styles in the future. It is difficult to lift an outboard motor from the trunk of the '59 Chevy."

and parts and accessories boards. While much of the discussion right now naturally concerns the complaints that Staley has tabbed, the real purpose of the boards is to look three years ahead, which is about the time it takes to bring a new car to market.

Chevy people feel that this kind of forward thinking by those in the field who have to sell the cars has long been needed. Some dealers, at least, heartily agree. One, for instance, writing to comment favorably on establishment of the Forward Development Boards began his letter, "Dear Hindsighters."

• **Into Effect**—Chevrolet already is trying to put into action the recommendations of the service board's first meeting. Staley's "thank you" letter was one result. (With about 2-million letters expected to go out this year, Staley has had a recorded message put on his home telephone. It says if it is a personal call, leave a number and Staley will call back; for business, he will be in his office from 9 to 5 o'clock.) Training for service managers and salesmen is another; courses for these are starting.

The recommendation that is being pushed very hard is for night service by dealers. Chevy has had only 57 dealers with night service in the entire country (about 7,000 dealers).

"Our customers are service orphans after 6 p.m.," says Staley.

The objective for this year is 800 dealers with night service. Enough dealers have already begun to stay open after 6 to make Staley say gleefully about the service board's recommendations: "We are cutting the cloth and wearing the suit at the same time."

There is probably no more vocal group of customers in the nation than people who buy automobiles (the monitor on Staley's phone stems from experience shared with many auto executives, including General Motors' Pres. John Gordon, of midnight calls from unhappy customers). But they seldom are invited to sound off to the people with ultimate responsibility for the product.

• **Consumer Panel**—Chevrolet's panel of owners takes care of that. R. L. Polk & Co., which compiles registration data for the auto industry, is selecting names of owners of Chevrolet models from 1956 through 1959. Eventually a panel will consist of 1,200 owners of cars and 1,200 owners of trucks, proportionate to Chevy's sales geographically, by model, and so on.

The owners get a letter from Worden asking them to serve on the panel; in four months, 800 letters have gone out and 300 owners already have accepted. Other owners who have heard about the panel but were not queried have volunteered to serve. Under present plans the panel will be queried by mail four times a year.

• **Subject Open**—Staley and Worden are not being specific right now about what the panel will be asked to consider. But one thing is sure: What the owners say will be very much in mind when future Chevrolets are designed. Contrary to common belief, Staley says that, in years past, Chevy's sales department had no say to product planning. But now he, as general sales manager, will be the voice of the customers.

Staley and Worden expect future Chevy buyers will find a lot of new conditions. Salesmen will show them how to work all the controls and gadgets. Buyers won't have to wait for the 1,000-mi. checkup to get the little things fixed; Chevy has abandoned the 1,000-mi. check, and the salesman will be phoning the customer to ask if anything needs attention (at least Staley hopes he will be). The owner's manual will give some real information about the car, instead of merely such sophomoric instructions as "move the gear selector to D to drive." And the magazine "Friends," mailed to Chevy buyers, will contain do-it-yourself tips on caring for the car.

"We want to keep a customer from getting mad," says Worden.

MARKETING BRIEFS

Japanese portable TV, transistorized, battery-operated sets, may find their projected entry into the U. S. market tough, says Television Digest. Delmonico International Div. of Thompson-Starrett expects first shipments from Sony—big Japanese electronics concern—of 13-lb., 8-in.-screen sets in April, the magazine states. Retail price: around $250. Several other important Japanese manufacturers have similar sets in the works. However, TV Digest reports, Emerson will also have a small portable shortly. And some U. S. makers wonder whether the little Japanese sets will find a market here at that price.

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NBC and RKO Teleradio Pictures Inc., will exchange TV stations in Philadelphia and Boston—the government willing. Under terms of a consent decree (BW—Sep.26'59,p27), NBC must get rid of its Philadelphia station. As part of the deal, NBC will also sell its Washington (D. C.) broadcast properties to RKO for $11.5-million as soon as it can find a replacement TV station. The switch will reshuffle affiliations in Boston, with Westinghouse Broadcasting Co. probably shifting from NBC to CBS.

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Four-million expectant mothers are the target of Mothers-to-be, a new semiannual magazine produced by Dell Publishing Co., which makes its bow on the newsstands next week. First issue, with guaranteed base circulation of 250,000, will be distributed in maternity sections of department and specialty stores as well.

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Women buyers are more impressed by such merchandise guarantees as the Good Housekeeping Seal of Approval or Parents' Magazine's seal than by other types of performance promises. That's the conclusion of Reach, McClinton & Co., advertising agency, from a survey. It showed that double-your-money-back guarantees actually harm the product image, compared with seals or laboratory-tested statements and unconditional guarantees.

IN NINE YEARS at the Fed, William McChesney Martin has championed orthodox monetary controls. Here Martin (left) consults A. L. Mills, a Fed governor.

GOVERNMENT

Martin, the M

The Federal Reserve's chairman likes to stay aloof from politics, but he faces election-year tiff over tight money.

For almost nine years, 54-year-old William McChesney Martin has weathered the storms associated with his job as chairman of the seven-man Federal Reserve Board, the body responsible for controlling the nation's money supply. The Fed, like the Supreme Court, is supposed to be independent of both Congress and the White House, and thus removed from the heat of political controversy. But Martin, a nominal Democrat who was first appointed by Truman and then reappointed by Eisenhower, is now in the thick of a looming political fight over tight money.

Martin has been embroiled in some fights before, but none of them ever reached the critical stage. This time, though, he faces the potent combination of an election year and the highest money rates since the 1920s. The Administration feels that tight money is essential if the U.S. is to achieve a balanced budget and a stable dollar. But the Democrats are anxious to do battle on the ground that these policies may prevent the nation from attaining the added growth needed to meet the Russian challenge.

• **Fighter for Orthodoxy**—In his battle, Martin is clearly on the side of stability. An apparently mild-mannered and reserved public servant without political ambitions of his own, he does not relish involving the Fed in politics. At the same time, he is not running away from any fight: He is prepared for a spirited defense of his orthodox policies of monetary management.

Martin's power—and his importance to politicians—stems from his position as head of the nation's central bank, which controls the amount of reserves held by the banking system—thus determining how much money, and at what price, banks can lend. The crucial responsibility gives the Fed a major role in shaping over-all economic trends and makes Martin a key figure among the nation's policymakers.

To Martin, his job is strictly non-partisan. And he has a measure of bipartisan support. In fact, most Democratic politicians agree with his view that credit should become scarcer and interest rates higher during periods of economic prosperity. But even these men think he has been pressing on the brakes too hard and too fast. They know the Fed is independent of the White House, but they also feel Martin's policy of restraint

Money Man, Heads Into a Fight

is geared nonetheless to the Administration's conservative line.

I. The Lines of Battle

In the disputes to come, Martin and the Administration will be linked on many fronts. For example, he is sure to figure in the White House fight to lift the 4¼% interest rate ceiling on long-term Treasury bonds. Last summer, when the House Ways & Means Committee moved to lift the ceiling, it attached a rider suggesting that the Fed buy long-term Treasuries (rather than government bills) when it wanted to ease rates. Martin felt that this advice, mild as it was, should not be part of any legislation bearing on the Treasury, and he got the support of Pres. Eisenhower and Treasury Secy. Robert B. Anderson. Congress then refused to lift the ceiling.

Now the Administration is making a new request, and Congress may again attach a rider applying to the Fed. Martin is sure to oppose it. Though he feels that Congress has the right to lay down the law to him, he insists that it should be done directly—through amendment of the Federal Reserve Act—and not in roundabout fashion.

• **Classic Rules**—Martin will also be under fire for acting as if the old gold standard rules still apply. Under the gold standard, if a country suffered a deficit in its balance of payments, it had to ship gold to its creditor nations. This reduced its own gold reserves and, in turn, its money supply. Eventually, the result was a decline in business activity, employment, and prices. When prices dropped low enough, exports increased again, the balance of payments swung back into favorable position, and gold flowed back into the country.

Critics say Martin is following the orthodox rule of tightening the money supply at a time when the U.S. has a balance of payments problem. They fear this may land us in an international war of interest rates. This charge was heightened last week when the Bank of England upped its bank rate to 5%—a full point above the Fed's discount rate. Martin, these critics feel, will push for even higher rates—which would help keep foreign funds in the U.S. but would also put a further squeeze on domestic borrowers.

In traditional central bank style, Martin refuses to tip his hand. But he is convinced that the U.S. economy—and the dollar—cannot stand in splendid isolation from the rest of the world. At the same time, he by no means thinks a deflationary purge of the old-fashioned gold standard sort is needed to solve the balance of payments problem.

INFORMAL talk between Martin (under lamp) and Fed governors (clockwise from Martin): C. Canby Balderston, J. L. Robertson, Harold King, Jr., M. S. Szymczak.

He also rejects the notion that tight money will crimp the economy; as he sees it, the one sure way to invite a bust would be via a cheap money policy that would bring an unstable boom. The way to grow, he says, is to increase savings, and he insists he favors "the lowest rate that is consistent" with maximum savings.

• **Sticking to His Guns**—Some Wall Street observers think that despite his convictions, Martin will avoid a head-on fight by subtly easing credit sometime later this year. They reason that he does not want to jeopardize the Administration's chances in the election. In the 1952 campaign he delayed putting through a rise in the discount rate until after Eisenhower's victory. This, they claim, may happen again.

But this view fails to take into account the changes that have taken place in the Administration, in the public mood—and in Martin himself. In 1952, he had only recently come to the Fed, and he was disposed to act cautiously, for fear of provoking a fight within the system or with Truman's Administration. Even in the 1955 boom, when there was no election to worry about, Martin moved slowly in tightening.

Now he is much more secure. He is not, as some of his critics charge, bold and belligerent and "out for blood." On the other hand, he is not so meek and self-effacing as some of his admirers claim. He is, in fact, a complex and enigmatic personality. There is no doubt, however, that he will stand by his convictions with the fervor of a man who has discovered religion.

II. Shaping a Policy

Martin's basic tenets are few. He believes that monetary management cannot do the whole job of maintaining economic stability. But as long as other weapons are not being used effectively, he feels that the Fed should not shrink from using all its guns. However, he believes that he should intervene as little as possible with the workings of the free market.

These principles are now standard operating procedure. Indeed, a great deal

of Martin's time has been spent in reshaping and reforging the Fed to his particular notions. Today, the Fed is what Martin has made it.

• **Flexibility Works**—Martin's biggest achievement has been in proving that a flexible monetary policy had a role to play. His arrival at the Fed coincided with the Fed-Treasury accord of 1951, which freed the money managers from having to support the government bond market. At the time, there was grave doubt about the use of such flexible monetary policy in the hands of an independent Fed; for the tools of monetary management had been found wanting in the 1920s and 1930s.

The past nine years have shown that monetary policy can be an effective force in the economy. True, inflationary developments have not been prevented, but Martin says, not unmodestly, that conditions would have been much worse without the Fed on the scene. The use of a flexible policy has also meant extremely wide fluctuations in the government bond market, but this is the price of trying to maintain over-all stability.

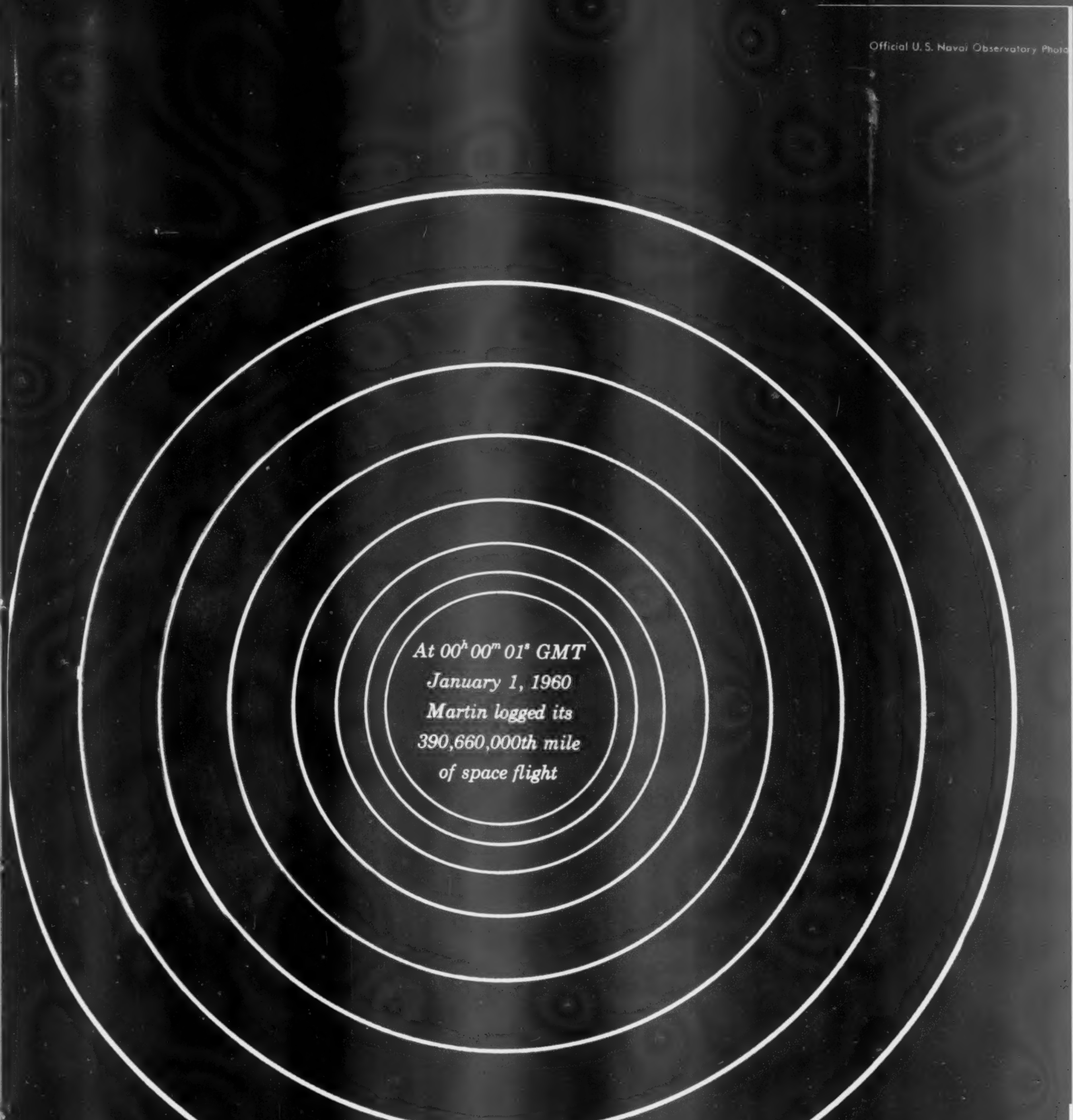
Martin admits that some mistakes have been made in setting policy. Yet none of them was fatal; in fact, any appraisal of Martin's role must take into account the fact that the Fed, under his stewardship, has had no choice but orthodoxy. For during most of the 1950s, deficit spending and inflationary financing were the rule. Moreover, the majority of wage settlements stimulated price rises. The Fed, according to Martin, had "to lean against the wind" all alone.

III. Inside the Fed

Martin feels he has accomplished a great deal within the Fed itself. In pre-Martin days, there was always a struggle for supremacy between the Fed headquarters in Washington and the New York Fed, which had a special status because of its place in the nation's money market. Today, there is no question that Washington is in the driver's seat and that the driver is Martin himself.

But he did not win without a fight. His opponent was Allan Sproul, president of the New York Fed from 1941 to 1956, and generally regarded as the nation's most able and experienced central banker. In essence, the Sproul-Martin fight was over how much managing the money managers should do: Martin plumped for a limited role, Sproul for a more active one.

Martin won victory by getting the other regional Fed banks, which had always resented the special role played by New York, on his side. He did this by "democratizing" the Fed, holding more frequent and regular sessions of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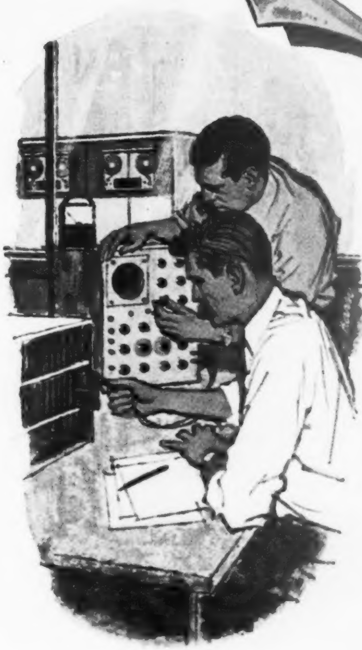

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the 12-man Open Market Committee and eliminating its five-man executive committee, which had formerly made most of the decisions. As a byproduct, a great many more people became privy to policymaking. This ended the tradition of "internal secrecy" under which only a handful of men—in New York and Washington—were in the know.

• **Changing Officers**—In the past nine years, a great many top-level personnel shifts have been made, and Martin has had a hand in most of them. He has seen to it that the chief officers in the regional Feds are central bankers as well as administrators. He has stressed the need for improving economic research.

Most economists acknowledge that the Fed's research team is the best in Washington, possessing an abundance of both theoretical knowledge and practical knowhow. There is a sort of Teutonic thoroughness about their work, impressive both in its scope and its attention to detail. Nevertheless, many economists feel the Fed's staff often seems closed-minded.

Martin leans heavily on his own research staff, headed by a triumvirate of Winfield Riefler, Woodlief Thomas, and Ralph Young. Riefler has just retired from his post as assistant to the chairman, and his place will be hard to fill; of all the Fed's economists, he was the most sophisticated and imaginative. A big influence on Martin, he provided much of the theoretical support for the Fed's orthodoxy.

IV. Tools of the Trade

The conservative path the Fed has followed under Martin is most evident in his use of the Fed's weapons. He is a firm believer in general and indirect controls; except for margin requirements on stock market credit, he has not been in favor of any specific credit controls.

In this respect, his own orthodoxy is much purer than that of the Bank of England, the oldest of central banks. It has not been afraid of innovating in an effort to bolster the general and indirect controls it possesses.

In fact, the Fed is about the only central bank that has turned its back on new ideas. In Canada, for example, the discount rate has been tied to the bill rate; in many other countries selective controls over consumer credit and over long-term capital borrowings have been tried; even in West Germany, which has been a center of monetary orthodoxy, the central bank has a specific means of regulating credit through a series of controls governing the lending power of commercial banks.

• **Methods Available**—But the Fed, under Martin, has rejected any innovations. It has relied on the orthodox weapons at hand.

There are a number of ways that an

orthodox central bank can influence reserves. It can make a prompt and powerful change by lowering or raising reserve requirements. Or it can lower or raise its discount rate, which has the effect of making member bank borrowing from the Fed either cheaper or more expensive. It can also operate in the open market, by selling government securities out of its portfolio, which reduces reserves, or by making purchases, which increases them.

Under Martin, the Fed has made relatively little use of reserve requirement changes. In the past nine years, this weapon has been used only to ease credit. In 1953 and again in 1958, it lowered reserve requirements in order to stimulate borrowing. Martin obviously regards it as a one-way weapon that has very limited use.

• **Favored Weapons**—He has placed much more reliance on changes in the discount rate and on open market operations. These orthodox weapons have the advantage of greater flexibility; they enable the Fed to feel its way before definitely committing itself. As such, they are much more in keeping with Martin's personal predilections.

There has been nothing bold, for instance, about his use of discount policy. Unlike the Bank of England, which increased its rate from 5% to 7% when it felt that shock treatment was needed in September, 1957, and only last week went up a full point, discount changes have been made only in fractions all during Martin's reign. And more often than not, the discount rate has not been used to give the market a clear signal of which way credit policy is headed. Instead it has tended to adjust to changes in the market itself.

The decision to make changes in the discount rate is primarily the responsibility of each regional Fed. But the decisions must be approved by Washington, which means that Martin is in a position to suggest changes. It may well be that his policy of fractional changes stems from a desire to get all the Fed banks to go along with him; but it may also be due to his wish to avoid a real battle with the easy money enthusiasts in Congress.

• **Market Dealings**—Actually, Martin has placed greatest reliance on open market operations. In this sphere, he has narrowed the Fed's scope by confining most of its transactions to bills.

Martin's "bills only" doctrine has many critics. The latest staff report of the Congressional Joint Economic Committee, for example, lambastes the Fed's "doctrinaire" demands that the money managers "have some responsibility for the structure of interest rates." And "bills only" was a big issue in Martin's fight with Sproul, who believed there are times when the Fed should deal in other securities in order

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To Martin, the notion of confining operations to bills is of a piece with his championing of the free market. He contends that the Fed's main concern must be the level of reserves held by the banking system, not the level of interest rates. At the same time, though, he has occasionally traded in other securities, which suggests that he has adopted Sproul's "bills usually" policy when it has suited his purpose.

V. Not Quite Independent

Martin says that since the Fed is responsible to Congress, which has constitutional authority for regulating the money supply, the Fed will conform to its wishes. If, for example, Congress decided to establish standby authority over consumer credit, Martin would agree to handle it.

The one thing he will fight for is the Fed's independence in policymaking. He thinks the Fed must be free to do its job as it sees fit. If it gets involved in political considerations, then it would lose the objectivity he feels is essential.

But Martin recognizes that independence is not an absolute. For example, he realizes that the U.S. Treasury is in a special position as a borrower. So even though the Fed no longer supports Treasury issues, it tries to maintain a neutral position whenever the Treasury comes to market. This cuts down on its own freedom to act, but Martin accepts this limitation.

• **Implicit Danger**—In fact, Martin faces a continual threat that Congress will step in and limit his freedom. Over the past nine years, Martin has shown himself remarkably adept at attaining maximum freedom of action without running into trouble. He has sometimes annoyed the Administration, but never to the point of having to resign; and he has frequently annoyed Congress, but never to the point of a showdown.

Some politicians think that Martin has led a charmed life—but that he may be running into trouble now. He himself thinks that for the first time in a long while, the Fed will be getting some help in its fight for stability. He thinks the steel settlement was not inflationary; he also feels that the public will resist any inflationary price hikes. And if the Administration is able to achieve its objective of a balanced budget, the Fed's burden will be eased.

Martin, however, is taking no chances. He feels that any relaxation might prove disastrous because, from his standpoint, the fight to maintain stability is a continuous one, with many skirmishes but no final victory. And though he admits to some defeats, he feels that the Fed is in better shape to do battle today than at any time in his reign. END

Planned Packaging moves merchandise

Sold and still selling!

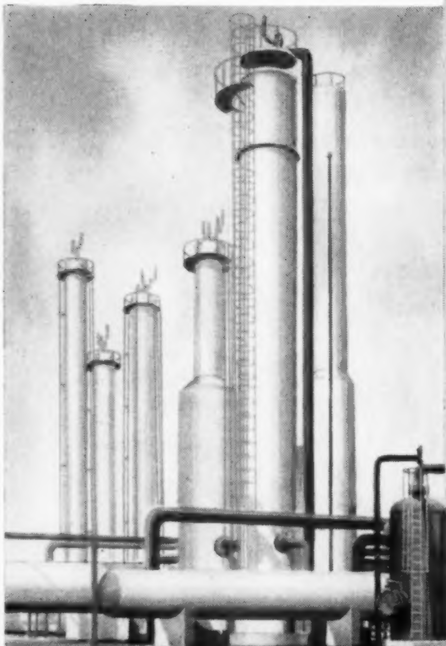
The corrugated container—workhorse of mass distribution—has long been known for its excellent product protection. Now it's fast becoming the Cinderella of packaging. Attractive, tinted background designs—even four-color half-tone printing, pioneered by Packaging Corporation of America—are transforming drab, rubber-stamped containers into eye-catching traveling billboards that sell their contents at every opportunity.

The skillful combination of art and package design is but one of countless ways in which Packaging Corporation of America's concept of Planned Packaging, implemented through integrated national facilities, produces better packaging . . . more sales. Whether your requirements are large or small, regional or national, we welcome the opportunity to help you.

Packaging Corporation of America

Administrative Offices: Grand Rapids, Michigan; Quincy, Illinois; Rittman, Ohio

Cartons • Containers • Displays • Egg Packaging Products • Molded Pulp Products • Paperboards



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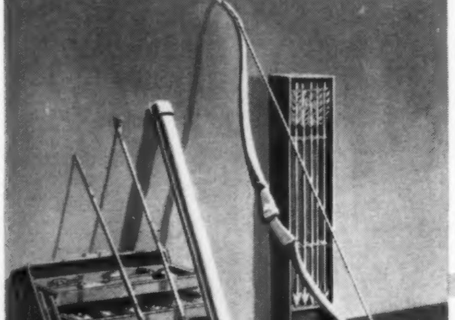
Manufacturer's Manufacturer

Strength through planned div

Refining crude oil in a petroleum plant calls for extremely high temperatures, precisely controlled. Eagle-Picher supplies a complete line of industrial insulations including pipe coverings, blankets, felts, precision-finished blocks, cements and protective coatings to achieve maximum thermal control from sub-zero to 2,300 F.

Frits, the basic material of porcelain enamel, are among Eagle-Picher products. Because of resistance to abrasion, chemicals, moisture, dust, heat, cold, weather and wear, porcelain enamel continues to widen its already broad scope of application. You will find it not only on customary appliances and utensils but also protecting a long list of less obvious products such as brake drums, escalator risers and jet engine liners.



"Phenopreg" plastic impregnated materials and parts span the field from bow and arrow shafts to the nose cones of guided missiles. Applications of these Eagle-Picher plastic impregnates include such varied items as fishing rods, printed circuit panels for radio and television sets, small boat hulls, grinding wheel reinforcements and aircraft wiring, ducts and housings.

NEW PRODUCTS

Fairchild Breaks Sound

New camera that records sound and pictures at same time is company's first consumer product.

When Fairchild Camera & Instrument Corp., Syosset, N. Y., decided to move into the consumer products field, it made up its mind to make the plunge with an entirely new product. The result: a comparatively cheap, self-contained 8-mm. home movie camera (pictures) that records sound simultaneously with the pictures.

The camera, the Fairchild Cinephonic Eight, contains a constant-speed motor and a 5-transistor amplifier powered by a rechargeable nickel-cadmium battery. A microphone attachment picks up sound up to 9 ft. away. Special film with a thin magnetic stripe down the side for recording sound is used, making synchronization of sound and lip movements automatic. One push-button controls both sight and sound.

• **Big Switch**—Fairchild is banking on the new camera to help reduce its 70% dependence on military business. Eventually, Fairchild hopes to get to a 70% civilian mix—and in the process, boost its sales from $43-million in 1959 to $90-million in 1961. The field it has picked for its consumer debut is a fairly lush one: About 1-million 8-mm. movie cameras were sold last year.

Many manufacturers have tried to break away from dependence on government business by horning into nonmilitary markets with their own versions of established consumer or industrial products. But Fairchild thinks this is the hard way to do it.

"In going into consumer products, we have tried to stick to areas where we would wind up with a proprietary position," says Pres. John Carter. He estimates it will take other camera makers from six to 18 months to come up with a product equivalent to Fairchild's sound camera.

• **Logical Development**—But in its search for a really new product to put before the consumer, Fairchild in no way turned its back on its past. The camera is a logical development of its military and industrial endeavors.

Fairchild has six divisions—defense products, industrial products, electronic components, graphic arts equipment, aerial surveys, and semiconductors. Its older divisions trace their roots back to photography and related processes.

The new camera developed with what Carter calls "constant bleed-off" from Fairchild's work on 16-mm. commercial sound cameras and other industrial cameras as well as from semiconductors, graphic arts equipment, and other lines. Eventually the camera, now in the industrial products division, will form the nucleus for a consumer products division. The company now has another new consumer product in the prototype stage.

The "bleed-off" enabled Fairchild to embody current technological trends in the new camera—use of transistors, miniaturization, and the self-contained package. Such things are "normal" in the company's defense and space work, as is the camera's basic combination of electronics with optical-mechanical systems. These features were of prime importance in overcoming obstacles that had stymied earlier attempts to put lip-synchronized sound into amateur movies by using bulky external power sources and amplifiers.

• **Compact Unit**—The Fairchild Cinephonic Eight weighs 5 lb., is about 6¼ in. high, 7 in. long, and 3 in. wide. Its battery is good for a year's operation. It provides about 900 ft. of shooting before it needs recharging. This can be accomplished in any household outlet at the rate of 10 minutes of recharging for each minute of use. The microphone attachment comes with a 15-ft. line. A headset can be used to monitor the sound as it appears on the film.

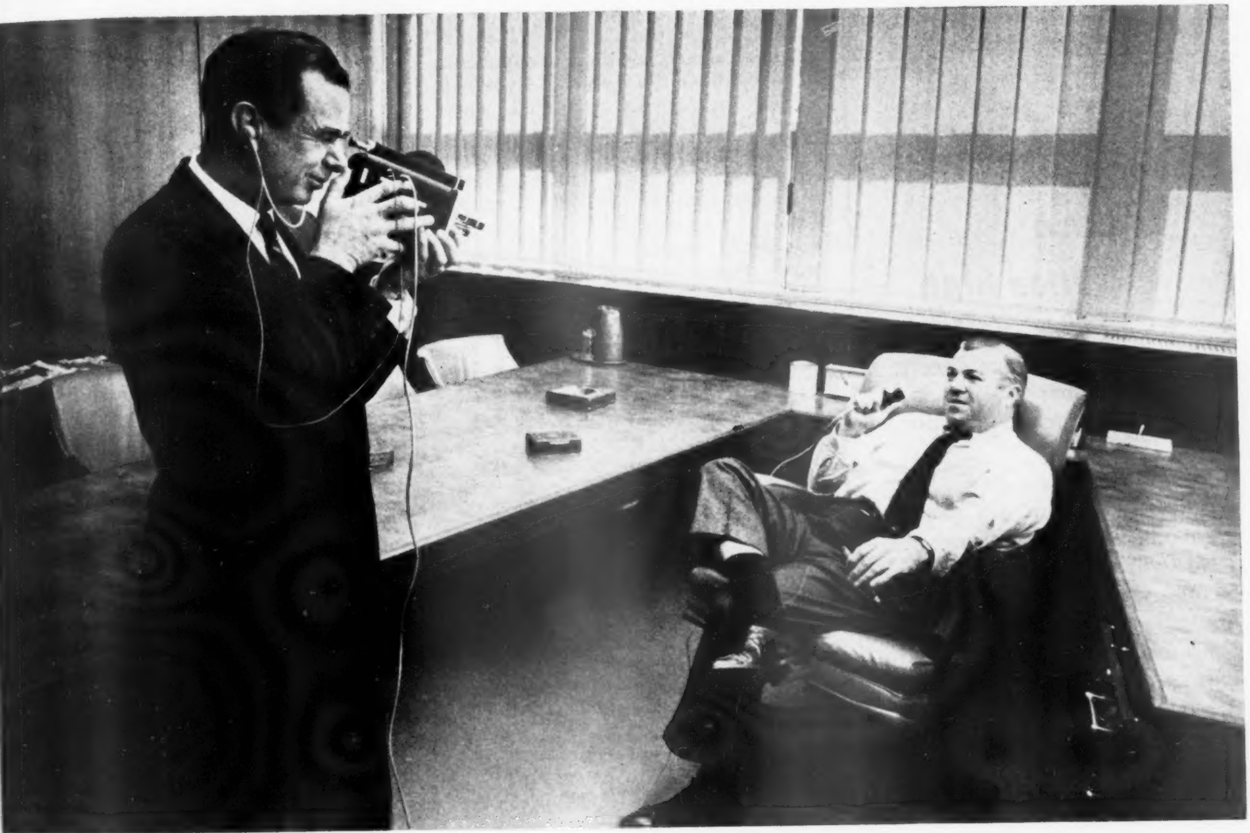
The film is made by Ansco, but will be sold under Fairchild's name. The rolls are 50 ft. long, but provide 100 ft. of shooting since they can be turned over and run through the camera again. Most 8-mm. cameras use 25-ft. reels.

The Cinephonic sound projector not only plays back a 400-ft. reel of film, but also can erase, overlay, or record fresh sounds on the magnetic stripe as desired, providing an automatic editing operation.

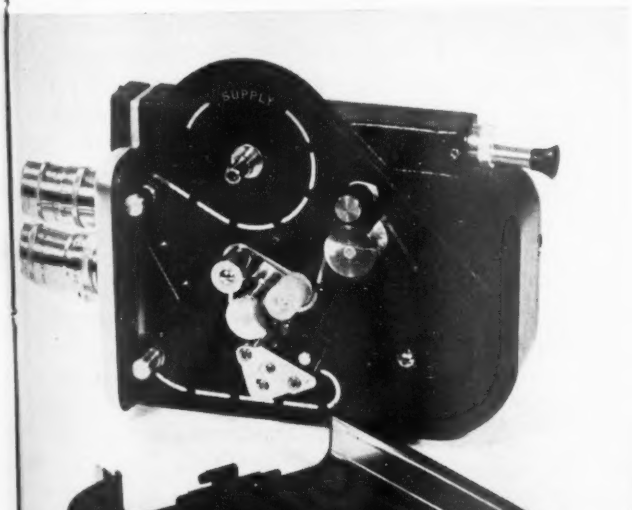
• **Price**—The camera is priced at $239.50 with one f:1.8 lens. The projector costs $249.50, and the film $7.50 a roll. These prices fall in or just over the top range for silent home movie equipment. But with the advantage of sound, Fairchild expects its equipment will be competitive. It deliberately set its prices low enough so that prospective buyers would not hold back in the hope of getting big discounts when imitation cameras come on the market.

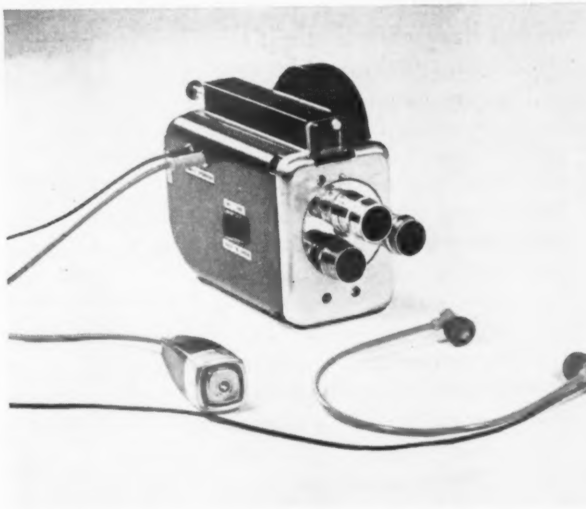
Initially, the camera will be sold through 100 large dealers with six-month exclusive franchises—for a 30% margin instead of the conventional 40% of the sales price. At first, the cameras will be serviced and repaired at Fairchild's Yonkers plant so the company can track down any bugs that may develop. Later, the company's widespread

Barrier in 8-Mm. Movies



VOICE AND FACE of Fairchild Pres. John Carter are recorded simultaneously by Ray Hennessey with new 8-mm. sound camera.





MICROPHONE attachment picks up sounds up to 9 ft. away. Headset allows operator to monitor sound as it's recorded.

FILM with magnetic stripe is threaded through camera with only two loops. One is for pictures and the other for sound.

service operation for military and commercial equipment will be used for consumer products.

Most of the parts for the new camera will be purchased or subcontracted. The company's own fancy military transistors, for example, aren't suited for the camera, so these components are bought on the outside. Alcoa will die-cast the parts of the camera shell. But Fairchild will make the film transport mechanism, sound heads, and some other parts itself and will do all the assembling, unless demand is greater than anticipated.

• **Industry Reaction**—Other camera makers express some doubts about the new Fairchild product. They think the batteries may run down in the middle of shooting or that the camera will prove to be too complicated for the average user. Fairchild claims it's simple to operate, however, with only two loops needed to thread the film in the camera. Another manufacturer doubts that the camera will sell without a zoom lens (instant shift from short range to telephoto).

None of the major camera makers admits having any plans to bring out an 8-mm. sound camera.

Fairchild has company in the field, however. Pictorial Co. of New Castle, Ind., reports that it has sold 50 8-mm. custom-made sound cameras with external power sources since 1957.

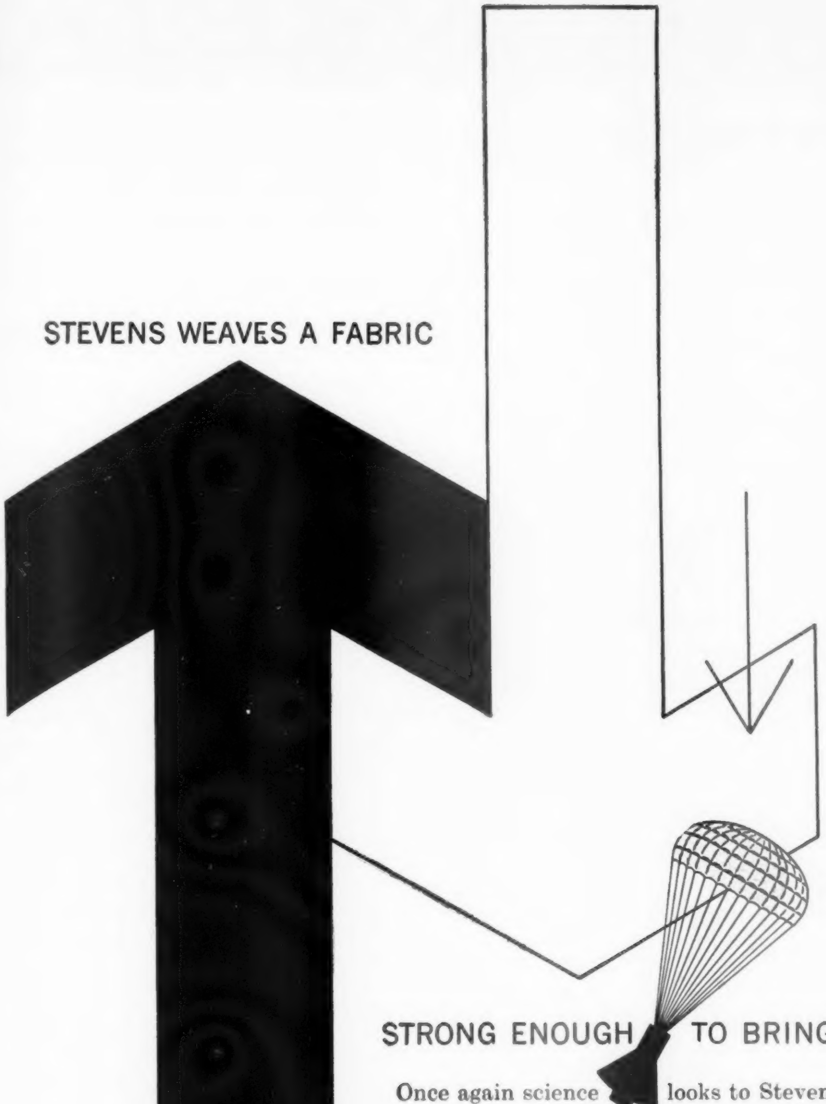
Three-Job Postage Meter Licks, Stamps, Stacks

Pitney-Bowes, Inc., a past master at licking the stamp problem, has come up with a desk-top machine that not only puts metered postage on letters but seals and stacks them as well. Up to now, this unified operation was possible only on larger, more expensive machines.

The new model 5500 weighs 28 lb., about half the weight of comparable machines. The sealing and stacking unit sells for $195, about one-third less than earlier versions. The meter is detachable for trips to the post office for refills—up to $9,999.99 worth at a time. The meter rents for a standard minimum of $7.20 a month. Fingertip levers allow the user to select a wider range of postage denominations than usual—from a half-cent up to $1.09½ in a single stamp. The meter stamp prints directly on letters, or gummed tape for parcel post.

Standard accessories are a lightweight meter carrying case, an envelope stacker that holds up to 40 letters, and a parcel post tape dispenser. The machine also has an internally fed adjustable inker, and a visible water-level indicator for the sealer. END

STEVENS WEAVES A FABRIC



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Once again science looks to Stevens to help meet the demands of the space age. Result: a specially constructed parachute fabric that will withstand a fall of many miles through space, safely lowering a manned Mercury capsule back to Earth. Weaving fabrics with the highest degree of reliability is typical of the effective way Stevens research and development facilities contribute to the progress of science and industry.

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Stevens—one of the country's largest fabric producers—offers a diversified production of woven and knitted fabrics in all fibers: Cotton, Nylon, Fiber Glass, Fortisan; Dacron® Polyester, Acrilan† Acrylic, Dynel†† Acrylic, Acetate, Rayon and Orlon® Acrylic. If you have a special industrial fabric problem, we will be glad to discuss it with you.

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Nebraska Farmers Selling Out

MEASURE OF PERSONAL INCOME

Millions of Dollars (Seasonally Adjusted)

STATE	1953-55 AVERAGE	NOVEMBER 1958	OCTOBER 1959	NOVEMBER 1959	% CHANGE VS. YR. AGO
Alabama	$286.4	$350.0	$342.8	$330.2	− 5.7%
Alaska	41.9	51.1	57.6	58.1	+13.7
Arizona	126.9	188.4	208.5	201.3	+ 6.8
Arkansas	153.5	168.8	174.9	171.6	+ 1.7
California	2,341.7	3,149.0	3,376.7	3,404.7	+ 8.1
Colorado	217.2	300.0	302.7	312.3	+ 4.1
Connecticut	440.7	548.4	587.9	585.1	+ 6.7
Delaware	78.6	109.0	117.5	118.6	+ 8.8
District of Columbia	158.2	186.1	192.8	191.8	+ 3.1
Florida	456.8	727.1	821.8	829.0	+14.0
Georgia	383.2	471.5	494.0	485.5	+ 3.0
Hawaii	76.0	100.3	105.8	108.3	+ 8.0
Idaho	74.5	90.0	92.2	90.9	+ 1.0
Illinois	1,677.5	2,034.9	2,140.1	2,147.3	+ 5.5
Indiana	663.5	778.4	792.9	798.4	+ 2.6
Iowa	357.3	450.9	452.1	445.5	− 1.2
Kansas	281.8	351.1	327.6	340.3	− 3.1
Kentucky	307.1	382.6	359.3	372.8	− 2.6
Louisiana	318.3	391.8	401.2	396.4	+ 1.2
Maine	112.8	134.9	140.9	140.9	+ 4.4
Maryland	432.3	562.2	547.6	567.4	+ 0.9
Massachusetts	799.8	965.0	1,035.0	1,023.0	+ 6.0
Michigan	1,234.1	1,387.8	1,525.3	1,470.6	+ 6.0
Minnesota	434.8	544.3	562.9	565.8	+ 4.0
Mississippi	160.9	178.2	177.5	173.7	− 2.5
Missouri	600.9	736.1	756.5	759.7	+ 3.2
Montana	92.3	114.0	96.9	99.4	−12.8
Nebraska	182.5	237.2	230.0	235.6	− 0.6
Nevada	43.1	58.8	64.5	64.2	+ 9.2
New Hampshire	75.2	91.8	94.2	94.5	+ 2.9
New Jersey	982.9	1,240.1	1,299.8	1,304.8	+ 5.2
New Mexico	91.8	129.5	127.6	126.6	− 2.2
New York	2,887.9	3,552.2	3,618.5	3,647.1	+ 2.7
North Carolina	429.0	514.8	502.5	524.1	+ 1.8
North Dakota	67.4	97.0	82.6	78.7	−18.9
Ohio	1,476.3	1,735.7	1,841.4	1,854.6	+ 6.9
Oklahoma	268.5	319.5	327.5	329.1	+ 3.0
Oregon	249.8	297.4	315.1	314.4	+ 5.7
Pennsylvania	1,678.6	2,016.5	1,927.5	1,983.9	− 1.6
Rhode Island	129.9	142.7	155.0	152.7	+ 7.0
South Carolina	210.0	241.7	243.7	254.2	+ 5.2
South Dakota	73.7	100.6	88.8	92.1	− 7.9
Tennessee	345.9	412.7	433.1	435.2	+ 5.5
Texas	1,132.9	1,426.9	1,426.7	1,429.4	+ 0.2
Utah	98.1	129.8	124.4	127.6	− 1.7
Vermont	45.9	54.7	58.6	58.1	+ 6.2
Virginia	383.3	558.1	562.4	565.8	+ 1.4
Washington	418.0	517.2	519.2	524.6	+ 1.4
West Virginia	209.7	252.0	253.7	255.0	+ 1.2
Wisconsin	528.2	645.9	673.3	672.2	+ 4.1
Wyoming	45.9	55.9	51.3	53.3	− 4.7
NATION	$24,363.5	$30,280.0	$31,212.4	$31,366.6	+ 3.6%

November, 1959, preliminary; October, 1959, and November, 1958, revised.

Complex factors persuade many to give up all through the Great Plains. It's part of a long-term trend.

This is the season when the bark of the auctioneer shatters the snow-wrapped calm of the Great Plains. It's a between-crops season for balancing the books—for figuring out how far last year's marketings will cover old debts and new needs, for guessing whether this year's marketings will let you come out ahead. Sometimes, the reckoning leads to a bitter choice: selling out.

This year, the cry of the auctioneering is rasping out loud and strong. "I don't have an open date until March," says Rex Young, of Plattsmouth, Neb., in a voice roughened by 49 years of sales.

• **Complex Causes**—It's a hard decision for a farmer to sell out of farming and into a new way of life; complex forces are driving him to make the choice increasingly. Man, government, the elements all enter into the picture.

Take the fairly typical Corn Belt state of Nebraska. There, Dr. Everett Peterson, agricultural economist at the University of Nebraska, found an unusual atmosphere of pessimism after making a round of farms. "Land prices have hit their high so let's cash in while we can," is the attitude he found.

BUSINESS WEEK's Measure of Personal Income, noting the month-to-month changes in the economy, is just beginning to record the new atmosphere (table, left, and chart). In October, Nebraska's income fell below the year-

Income Gains

Steelworkers trooped back to the mills in the second week of November—early enough to be counted in the mid-month employment survey, but not soon enough to offset the widening effects of steel shortages on user industries. Steel-hungry plants, mostly in the auto industry, laid off close to a quarter-million workers in what is normally a peak output period. The developments, coupled with slackening construction activity and sagging farm income, braked the year-to-year gain in BUSINESS WEEK's Measure of Personal Income to 3.6%—the smallest yearly improvement since August, 1958.

• **The Losers**—Thirteen states—every one an important farm area—registered declines from a year ago. North Dakota

As Incomes Sag, Prospects Fade

before month for the first time in 1959. In November, it fell again. Retail sales recorded by the university fell in November to even with the year-before month, after running ahead all year by 5% to 18%.

• **Bumper 1958**—Superficially, the 1959 drop in farm income could be blamed for all the gloom. But this would not be accurate; long-term, 1959 was not too bad a farm year for Nebraska. It merely looks bad compared to bumper 1958.

Peterson estimates that 1959 cash receipts from farm marketings were $1,102-million, a drop of 12% below the U.S. Agriculture Dept. figures for the year before. Presumably, when figures are available, they will show an even worse drop in net income, because of rising costs.

Crops did more of the damage than livestock; cash receipts for crops were off 16%, to $392-million. Of Nebraska's two major cash crops, wheat took the licking—not corn. Nationwide, the 1959 wheat crop was down 25% from record 1958; in Nebraska the drop was 38%. Three factors hit the state: too little moisture at planting time, a severe winter, and plant diseases late in the season.

Corn was another story. Nationwide, the crop set a record, 16% above 1958, while Nebraska's corn was up 24%. Even with prices off slightly, the big output helped offset the decline in cash from wheat.

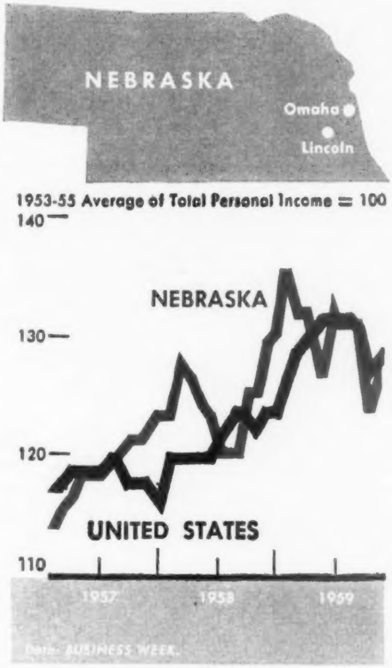
• **Livestock**—Nebraska's cash marketings from livestock went off 9%—to $710-million—with drops in both cattle and hogs. Greater marketings of cattle—much more important than hogs in Nebraska—failed to offset price drops in two categories. Late in the year, prices for feeder cattle, especially calves and heifers, fell steeply, while all year long there was a gradual decline in the prices that Nebraska's farmers could get for the cattle they fed themselves.

As for hogs, Nebraska suffered along with other states from the easily predictable cycle: With feed cheap, they raised too many hogs; then the tremendous marketings drove prices down so far that the increased sales were of little help.

Many farmers have decided to give up, after studying these short-term trends against the larger backdrop of the years. Dry-land (no irrigation) farmers were haunted by the 1955-56 drought, and feared another coming after rainfall that was excellent in 1958 and not too bad in 1959. Those who irrigate feared further drops in the price of corn as their costs go up. Particularly in eastern Nebraska, corn farmers are pinched between softening prices and demand reduced by cuts in the pig crop. Wheat farmers worried lest their acreage allotments be cut still further.

• **Few Factories**—Farmers in Nebraska—unlike more industrialized states such as Illinois or even Iowa—have scant opportunities to eke out farm income with factory jobs. Omaha does claim 15 new factories since the war—the biggest, a 4,200-worker Western Electric plant—but that's only one a year and Omaha is remote from most of the state.

Omaha and the nearby state capital, Lincoln, are the only really bright spots in the state, with government and university payrolls to fatten out their scattering of factories. Their retail stores attract hinterland customers.



What's more, Omaha and Lincoln have gained from the defense switch to missiles from aircraft, which has brought so much woe elsewhere. Omaha is headquarters for the Strategic Air Command—with 9,100 personnel, including 1,200 civilians; and a $15-million Atlas missile base is being built. This spring, contracts are expected to be let for a $36-million Atlas base at Lincoln.

Held Down by Steel Famine, Farm Slump

was the biggest loser, plummeting 18.9% below last November when it was riding high on now-defunct acreage reserve payments. Other contributing factors were: slumping farm prices and mounting costs; and unusually severe cold and snowstorms, which curtailed outdoor work.

On the plus side, 22 states—led by Florida (+14%) for the third month in a row—bettered the national average. These included most of the major industrial states. Pennsylvania, however, with the largest concentration of steelworkers (just under one-third), dipped 1.6% below November, 1958, as shortages cut sharply into payrolls in structural metal products, construction jobs dropped almost 10%, and farm receipts dwindled. Another important steel state, Alabama, fell 5.7% below last year. Soft spots appeared in textiles, lumber, and agriculture, while apparel and retail trade jobs rose.

• **West Coast Story**—Myriad influences came into play on the West Coast in November. California's Kaiser Steel picked up a few weeks advantage over other steelmakers by settling in late October and thus ran at peak level throughout November. Settlement of other West Coast labor disputes occurred in glass, food processing, and shipbuilding.

But additional cancellations of government contracts dimmed the outlook for key aircraft plants in southern California and Washington. Lingering secondary effects of the steel strike spread through the metalworking industries. The nationwide decline in housing starts had an adverse effect on the Northwest's crucial lumber and wood products industries. Although farm receipts have improved for fruits and vegetables, farm income has been waning due to rising production costs.

From October to November, personal incomes moved up an almost imperceptible 0.5%. Thirty-two states registered some month-to-month improvement. North and South Carolina tied for first place in monthly gains with 4.3% each. In Michigan, where big layoffs occurred in steel-shy auto plants, income dropped 3.6% below October.

INTERNATIONAL OUTLOOK

BUSINESS WEEK
JAN. 30, 1960

A BUSINESS WEEK SERVICE

Much more is at stake in the boiling crisis in Algeria than the outcome of the long war there. At midweek, the French settlers were in open armed revolt against Pres. de Gaulle's self-determination policy. **The French Army was on a sitdown strike,** refusing to follow orders from Paris to disperse the rebels by force. As the stalemate continued, there were signs that de Gaulle's political strength in France itself was weakening.

At midweek, it looked as if de Gaulle could still win—if he acted quickly enough. Otherwise, the outcome could be tragic:

- Settlement of the Algerian war, of course, would be put off indefinitely.
- De Gaulle's own prestige and that of his Fifth Republic would be undermined or even destroyed.
- The newly won stability of the French economy would be threatened.
- France's reliability as a member of the Atlantic Alliance would be in doubt, with unforeseeable consequences for Western and East-West relations.
- Even the possibility of civil war in Algeria or France or both couldn't be ruled out.

De Gaulle, as the moment of decision approached, faced three alternatives, each involving grave risks for his own and France's future:

He could gamble on an all-out test of strength with the settlers and the Army in Algeria—even at the risk of civil war there between factions of the Army loyal to him and those backing the rebellious settlers. Victory would leave him in a stronger position than ever to seek a settlement of the Algerian war and to move ahead with internal French reforms. But defeat almost certainly would force him to resign.

He could resign immediately in the face of Army refusal to support him. This would touch off a political crisis more dangerous than the one that brought him to power two years ago, because there would be no leader of his stature to take over.

He could temporize by modifying his Algerian policy enough to satisfy his opponents in Algeria. That would put off a showdown but leave the Algerian war as far as ever from settlement—and de Gaulle with less power to settle it.

Washington is keeping quiet about the French crisis. But officials are certain that any outcome that weakens, much less destroys, de Gaulle politically will be a bad blow to U. S. world interests, despite the deep disagreements on many issues that have divided Washington and Paris.

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The U. S. has rejected, for the moment, suggestions of economic reprisals against Cuba. Pres. Eisenhower himself laid such speculations to rest at his weekly news conference. U. S. hopes, he said, lie in negotiations.

The decision was reached after top-level talks on deteriorating relations with Castro's regime. Pres. Eisenhower and Secy. of State Herter called Philip Bonsal, ambassador to Cuba, home for the second time in a month.

Specifically, the Administration will not recommend a cut in Cuba's sugar export quota to the U. S., reduction of the 2¢-per-lb. price subsidy paid U. S. and Cuban cane growers, or suspension of the preferential tariff on Cuban imports.

Punitive action, however, can't be ruled out indefinitely.

To enable it to act on sugar policy without going to Congress, the Administration is likely to request broader authority over import quotas and price fixing when the Sugar Act comes up for renewal during this Congressional session.

U. S. officials are talking about protesting to the World Court at The Hague, if Castro will not negotiate. They are also considering asking other Latin American nations to put diplomatic pressure on Cuba through the Organization of American States.

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Collapse of the U. S.-Soviet lend-lease negotiations this week—first concrete negotiations with Russians since the Camp David meeting between Eisenhower and Khrushchev—won't affect the outlook for the summit conference much. True, a quick Soviet agreement to settle the lend-lease issue would have improved the atmosphere for later bargaining. But Washington doesn't read Soviet inflexibility on the technical—and hard cash—lend-lease question as a sign of any general hardening in the Soviet line.

The talks broke down because Soviet Ambassador Mihail Menshikov insisted upon tying a lend-lease settlement to U. S. agreement to make a long-term loan to the U.S.S.R. and to conclude a trade agreement giving the Soviet Union equal treatment with other nations. Restoration of such most-favored nation treatment would require Congressional action.

U. S. negotiators conceded that a lend-lease agreement probably would clear the way to some liberalization but they could not commit Congress to any specific action.

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This country's balance of payments problem—and its implications for both domestic and foreign economic policy (page 34)**—will be very much in the news during the months ahead.**

To be sure, the 1960 payments deficit should be considerably smaller than last year's \$3.7-billion. But the chances are against a big enough improvement to restore real confidence in the dollar abroad. Forecasts for this year's deficit range all the way from \$2-billion to \$3-billion, with a majority of the experts leaning toward the higher figure.

The Economic Report of the President (BW—Jan.23'60,p27) predicted a "moderate improvement" in the U. S. balance of payments for 1960. According to the report, the gain will come largely from a sizable increase in export sales—a much larger increase than can be expected in our imports.

The National Foreign Trade Council has gone a step farther, estimating a \$2-billion increase in 1960 exports as against a \$600-million rise in imports. But NFTC's "balance of payments group" still forecasts a \$2.9-billion over-all deficit for 1960, or only an \$800-million improvement on last year. This group expects to see a large part of the \$1.4-billion improvement in our merchandise trade balance offset by a combination of increased U. S. private investments abroad and larger government loans.

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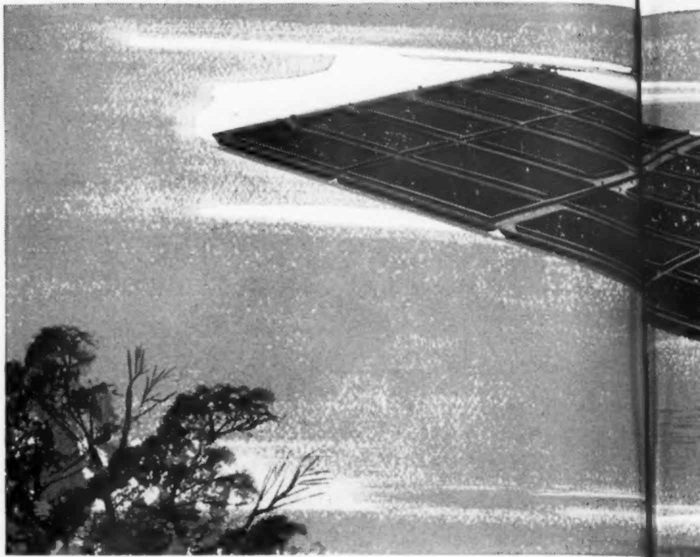

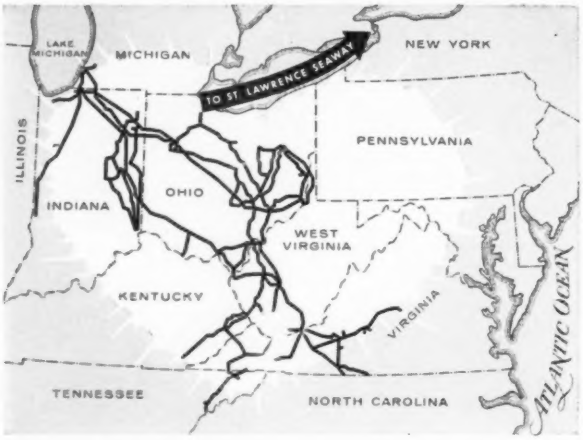

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View of a typical plant site available in the Ohio Valley Area.

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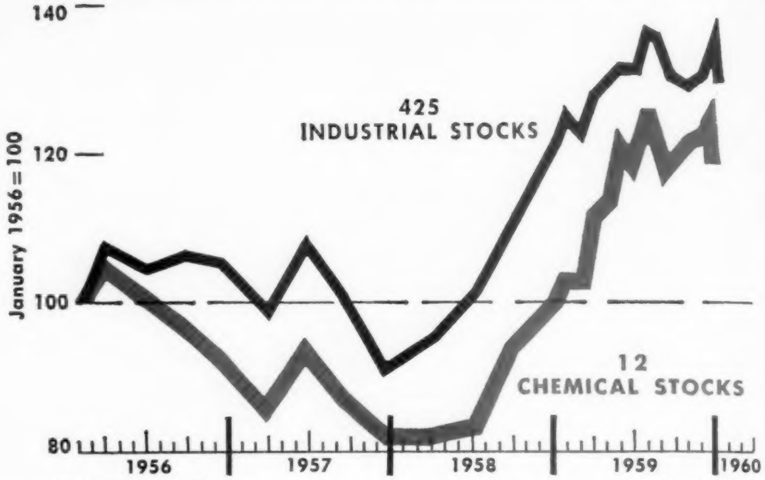
CHEMICAL STOCKS: Still behind the market . . .



Data: Standard & Poor's Corp. ©BUSINESS WEEK

Are Chemicals Due to L

With stock prices taking a beating this week, one industrial stock group that was getting a lot of attention was the chemicals. The chemical stocks listed on the New York Stock Exchange are second only to the oils in total value, and are found in almost every institutional portfolio. That's one good reason for looking to the movement of the chemical stocks to provide some insight on the over-all trend of the market.

An even more timely reason shows up in the chart above: Chemicals declined sharply in late 1956 and early 1957, long before the last big market break which began in the summer of 1957. Analysts are trying to decide whether the chemicals are going to hold up, or whether they're likely to take another nose dive that could presage a more general deflation in market values.

• **Well-Supported**—The evidence indicates that the chemicals, this time, aren't likely to slump the way they did in 1956. In fact, most analysts feel that any decline in chemical prices won't be any greater than the market suffers as a whole. There are some analysts, indeed, who feel that the chemicals are a good bet to chalk up some gains even though the market continues to drop.

This optimism is based on the rosy earnings reports that chemical producers have chalked up for 1959, and the still better results expected in 1960. Analysts think that not all of this expected earnings improvement is reflected in current market prices. This means there's plenty of room for prices of chemical stocks to climb.

This remarkable recovery in chemical earnings, as shown in the table (above, right), amounts to an over-all rise of 50% over 1958's depressed results. These are estimates, and actual figures may not quite reach these levels, chiefly because of the effect of the steel strike on fourth-quarter results. But on any reckoning, 1959 was a fat year for chemical companies.

Most chemical companies have shared their good cheer with stockholders. The chemical industry raised its dividend payments in December by 30% over the same month in 1958. For the full 12 months of 1959, dividends were up 10%.

• **Not Out of Limbo**—But despite the improved earnings outlook, analysts say that the chemical stocks may not yet have come out of the transformation in their investment status that has been taking place in the last few years. Until 1955, chemicals were regarded as glamorous growth stocks, and were in great demand. As a result, the typical price-earnings ratio for chemical shares jumped from about 10 to 1 in 1948 to over 30 to 1 by 1955. And since earnings were also climbing, stock prices soared.

But from 1956 through 1958 chemical earnings went into a prolonged decline, with over-all profits dropping some 35%, and profit margins shrinking from 19% before taxes to only 13%. This made investors lose a lot of their enthusiasm.

Now, brokers say that much of the "automatic growth" has been dis-

... Despite last year's surge in EARNINGS

COMPANY	PER SHARE EARNINGS 1958	1959 (e)	PERCENT INCREASE	RECENT PRICE	PRICE/ EARNINGS RATIO
Air Reduction	$3.44	$4.00	16.3%	$76	19.0
Allied Chemical	1.71(a)	2.51***	46.2	55¼	22.0
American Cyanamid	2.07	2.50	20.8	53	21.2
Chemetron	.73	1.60	37.0	27⅛	17.0
Dow Chemical	2.39*	3.25*	36.0	96½	29.7
DuPont	7.25	9.25	27.6	245¾	26.6
Hercules Powder	2.04	2.75	34.8	66¾	24.3
Monsanto	1.55	2.12***	36.8	49½	23.3
Olin Mathieson	.70	2.75	292.9	48⅞	17.8
Rohm & Haas	13.05	22.00	68.6	722	32.8
Stauffer	1.99**	2.50	25.6	59⅞	23.9
Union Carbide	4.15	5.60	34.9	146	26.1

e=estimated a=adjusted for stock split *fiscal year ending in May **includes Victor Chemical ***actual results
Data: BUSINESS WEEK.

to Lead a New Market Slide?

counted, with the result that chemicals are thought of more and more in cyclical terms—like auto and steel stocks.

Price-earnings ratios for the chemicals, however, haven't dropped back to the 10 to 15 times earnings that's now standard for other cyclical shares. The earnings multiplier on chemical stocks has stabilized between 25 and 30 times earnings.

• **Squeeze**—Chemical men are quick to draw a distinction between the chemical stocks and, say, the oils, another former glamor group. The oils have lagged because of a setback in their long-term growth rate. But growth in the chemical industry has not slowed down. Sales of chemical products are continuing to expand at their historic high growth rate of more than 6%, nearly double the rate of about 3¼% for industrial production generally.

It's a squeeze on profit margins that has hurt the chemical producers and their shares. This squeeze has become very noticeable whenever there's any slackening in the economy. This always brings a reduction in chemical sales, and an even sharper drop in profits.

• **Competitive**—The squeeze on profits stems largely from the intense competition in chemicals. It's not just the usual intercompany competition within an industry. Companies outside the industry—especially oil producers—have made big inroads into petrochemicals derived from oil and gas.

Since petrochemicals, including such plastics as polyethylene, are considered the No. 1 growth area for the chemical industry, the outside competition has bothered many investors, and has tended to depress stock prices.

In addition, as Pres. Robert B. Semple of Wyandotte Chemicals Corp., points out, chemicals compete with each other. Chlorine, a staple industrial chemical, for instance, must compete with other oxidizing agents in bleaches and bactericides. Cellophane, wax paper, aluminum foil, polyethylene film, acetate film—all these compete in the packaging and wrapping field.

• **Other Problems**—This severe competition is reflected in chemical prices, which have been very stable for the past five years. Chemical costs, however, have climbed steadily—so earnings haven't always kept pace with sales.

Then, too, the capital investment required to produce chemical raw materials economically is already big—and getting bigger. This has led the industry to program its capital spending in cycles—and in turn, to temporary overcapacity problems. But surplus capacity, for the present at least, isn't considered a serious problem—except in a relatively small number of specialized products.

Heavy capital spending—the 1959 total of $1.2-billion, lowest since 1955, still topped all other manufacturing industries—also means huge depreciation charges. Chemical companies, in general, have adopted fast write-off methods that have boosted depreciation charges. This leads some analysts to talk in terms of an "illusory" decline in chemical profits, and focus attention on cash flow. On this basis, they say, not only do the chemical stocks look a lot less expensive now, but the profit recession of the past few years doesn't seem so serious.

• **Pros and Cons**—Peter B. Cannell of F. Eberstadt & Co., who is executive vice-president of Chemical Fund, Inc., thinks that because chemical capital spending has been in a declining cycle for the last few years, depreciation charges are likely to drop in relation to sales for leading chemical companies this year and next. This would mean an increase in reported earnings over and above the approximate 10% increase expected anyway—and a boost for chemical stocks.

On the other side of the picture is the fact that chemical shares are selling at higher price-earnings multiples than most other groups. It's unlikely that they could move up in vigorous fashion without a general rise in price-earnings ratios. This looks doubtful.

• **Still Some Glamor**—But the chemicals still have some glamor left. Chemical laboratories keep coming up with new products and processes—which often create whole new markets that didn't exist previously. Conventional "high-pressure" polyethylene production, to take an example, was a mere 30-million lb. 10 years ago; last year sales topped 1-billion lb.

It's this kind of expansion that leads Richard P. Windisch, of W. E. Burnet & Co., who is bullish on chemicals, to say that "the field of chemistry still offers one of the soundest and most promising fields for future growth." END

Wall St. Talks . . .

. . . about truckline stocks, the savings banks' cash pinch, Israel oil deal, broker magazines.

New trucking stock issues are hot right now. Eastern Freight Ways, Inc., expected its 100,000-share offering at $4 a share to go out the window this week, and underwriters say others are on the way. Behind this rush is the familiar estate tax problem: Many big truckers are on the verge of retirement, and they're tax-conscious.

Mutual savings banks, hard hit by withdrawals, have appealed to commercial banks for temporary help—but are getting a cold shoulder. The mutuals want assurance that the commercial banks will carry **mortgages the mutuals have contracted to take but can't pay for at the moment.** Commercial banks, already close to loaned up, aren't helping, saying that such mortgage "warehousing" is inflationary.

Meanwhile, **the same loss of deposits jeopardizes the dividends of some mutual savings banks.** Many are now paying 3½% regularly, with an extra ¼% on two-year money. If their deposits continue to shrink, says one mutual savings man, they won't have enough earnings to cover the extra.

Bear, Stearns & Co. has pulled off a neat job on Israel-American Oil Corp. The oil company has been unsuccessful in a long search for oil, but Bear, Stearns—a controlling stockholder—set up a stock swap with a group of investors (including Samuel Friedland, chairman of Food Fair Stores, Inc.) who had struck oil in Israel. I-A stockholders get a 20% interest in producing oil properties, while the Friedland group gets 10.8-million shares of I-A, which is listed on the American Stock Exchange.

Several big Wall Street houses are going into the publishing business with their own magazines. Merrill, Lynch, Pierce, Fenner & Smith, Inc., pioneered with its Investor's Reader. Now Francis I. duPont & Co. is launching a publication that will have a circulation in the hundreds of thousands, and others plan to follow suit.

Underwriters have an explanation for the dearth of corporate issues on the calendar. They say corporations are holding back on registrations until year-end statements, to be included in prospectuses, are completed. Then, they say, there may be a deluge.

In the Markets

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Stock Prices Keep on Slipping As Investors Cling to Sidelines

The erosion in stock prices continued this week, although at a somewhat slower pace. Trading volume diminished as investors marked time, with bargain hunters waiting to see if prices would decline further and potential sellers hoping to dispose of their stocks when buying brought a pickup in prices. This deadlock is not likely to last long, but there was no clear sign of just which way the trend would turn.

Some analysts think the 615-620 area on the Dow-Jones industrials index will provide the test. The index is now around 640; so they expect a further drop before the market turns around. A few others think a climactic sell-off down to the 620 level would encourage those on the sidelines to come in and buy. As one analyst put it: "People get discouraged when prices drop a little day after day. They'd lose their pessimism if we had a big drop; they would simply go in and buy."

The market is not in the throes of a major bearish decline. **The drop to date is still well within the bounds of the normal corrections that occur in a bull market that's aging but still alive.** So the prospect is for higher prices.

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How Castro Policies Bear Down On Three U. S. Sugar Companies

The results of Fidel Castro's economic policies have affected three U. S. sugar companies:

Francisco Sugar Co. reported that a possible profit in 1959 was turned into a \$230,784 loss because of \$845,000 in "extraordinary payments" made at the direction of the Castro government. In 1958, Francisco earned \$1.5-million—or \$2.86 a share. Its current stock price of \$6 is now one-half the 1959-'60 high.

Manati Sugar Co. said its profits fell from \$650,378 in 1958 to \$133,828 in 1959—or from \$1.47 to 30¢ a share—even though production was at a high level. The company listed "extraordinary payments" of \$466,000.

West Indies Sugar Co., the first to call it quits in Cuba during Castro's regime (BW—Jan.9'60,p102), expects the initial liquidating distribution will amount to \$14.54 a share—the stock is selling around \$35.

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Rates Drop in Short-Term Market, But the Turn May Prove Temporary

A bullish tone was evident in government securities this week, especially in the short-term sector. The rate on 3-month Treasury bills, auctioned at 4.11%, fell below 4% for the first time since early November. And commercial paper dealers cut their rates again, the second reduction this month.

Dealers point out that, until mid-February, only \$1.4-billion bills are being sold weekly, instead of the usual \$1.6-billion. **This reduction in demand comes at a time when the supply of funds seeking investment is large,** partly because the Federal Reserve has not yet sopped up the seasonal rise in bank reserves.

Dealers also detect a change, if only temporary, in bond market psychology. Investors have been impressed by the Administration's hoped-for surplus in the 1960-61 budget and by off-the-record statements from the Fed that inflationary pressure has abated.

Despite the present trend, which may push rates even lower, **many experts think that the rally will be short-lived.** Girard L. Spencer of Salomon Bros. & Hutzler, for one, expects further tightening of credit.

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Meeting for Managed Funds Fails To Get Quorum; Still No Directors

Managed Funds, Inc., the St. Louis mutual fund that has been under the fire of SEC, had to put off for two more weeks a shareholders' meeting to elect a new board of directors. Only 450,000 shares were represented at a meeting this week, out of 10.3-million needed for a quorum. Managed Funds elected a slate of nine directors only last Nov. 4, but they've all quit. **The old directors have refused to nominate successors, so control of the fund is, in effect, up for grabs.**

One suitor is Morris M. Townsend, who has made some handsome profits in mutual fund management companies. This week, for the first time, he bid openly for control of Managed Funds. Previously, Townsend had been content to keep in the background. This tactic has apparently failed, so his organization now is working hard to get final stockholder vote before other groups can get organized

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Dealers Accused of Manipulating Stock, Leaving Public to Hold Bag

Details of manipulation in Oreclone Concentrating Corp. stock were revealed this week. Both the SEC and New York's Attorney General Louis J. Lefkowitz charged that **a group of over-the-counter dealers had pushed the stock to \$29 from its offer price of \$3** before its price collapsed.

According to SEC, Oreclone stock was churned around among the dealers to create an illusion of active trading; at the same time, shares were pushed out to gullible purchasers by high-pressure salesmen working for some of these dealers. However, the shares weren't delivered to purchasers, so this has the same effect as a short sale by the dealer.

The object, apparently, was to cover the sales with stock purchased after its price had been knocked down. If things had gone well, the dealers would have been able to deliver shares bought at a fraction of the sale price.

LABOR

Labor Front Remains Troubled

- **Rail negotiations are making little progress.**
- **Shipbuilding workers have walked off their jobs at Bethlehem Steel's East Coast yards.**
- **Long-term strikes at Anaconda and Phelps Dodge copper mines and at Wilson's meatpacking plants drag on.**
- **Upcoming demands by unions in aircraft and electrical manufacturing are likely to meet employer resistance.**
- **Everywhere, work rules are a crucial issue.**

"Contract negotiations on the railroads are clickety-clicking toward another national emergency." This week a veteran of many years of railroad bargaining used those words in reporting developments in negotiations between carriers and unions representing nearly a million workers. It was a reminder that labor troubles are far from over.

Everyone breathed easier after the steel settlement the first of this month. It ended the threat of another massive strike. But at midweek:

• Rail union spokesmen protested lack of progress in direct negotiations with the roads; they called for more federal action.

• Although the United Steelworkers had signed new contracts with all major producers and with most smaller ones, it ran into stubborn resistance from a few companies.

• After working six months without a contract, the International Union of Marine & Shipbuilding Workers struck major Bethlehem Steel yards on the East Coast.

• Two major strikes dragged on—against Wilson & Co. and in the copper industry.

• Unions in aircraft and electrical manufacturing got down to the serious job of drafting demands to be made on employers in the next half-year or so. It was obvious almost at once that employers would resist them stubbornly.

So industrial relations remained troubled this midweek. Government mediators—those of the Federal Mediation & Conciliation Service and of the National Mediation Board, in railroading—used strong words of retort to those talking optimistically of a "peaceful" 1960.

I. Rail Impasse

Labor organizations that bargain for some 900,000 railroad employees are now in the spotlight. Their contracts covering wages and working conditions ran out Nov. 1. The unions want a settlement at least as attractive as the package in the steel agreement. Carriers say that if they meet the steel terms, many roads will be forced into bankruptcy—their costs would go up \$800-million a year or more.

Currently, both sides are talking tough. Yet rail bargaining does not appear to be headed as inexorably toward a strike showdown as steel negotiations did at a comparable bargaining time in mid-1959.

• **How They Stand**—Eleven unions of nonoperating (off-train) employees, bargaining together, have invoked the services of the National Mediation Board to help bring about an agreement.

Representing 600,000 unionists, they want a 25¢-an-hour raise, the continuance of a 16¢-an-hour cost-of-living allowance, additional paid holidays, liberalized vacations, and a liberalized health-welfare program. They're reported willing to drop a cost-of-living clause in their next contract.

Carriers call this "exorbitant."

Operating unions of engineers, firemen and enginemen, conductors, trainmen, and switchmen, about 300,000 in all, originally asked for wage increases of 12% or 14%. The carriers called for a 15¢-an-hour cut in wages. Unable to break the deadlock in bargaining, the parties called in the National Mediation Board at year-end.

Last week, carriers were reported by the Brotherhood of Locomotive Engineers to have made a "feeler" wage offer—a 3% raise, about 7½¢ an hour, effective Jan. 1, 1961. The BLE rejected the "proposed proposal" of 3% as "completely unrealistic."

• **Revised Demand**—The BLE subsequently reduced its wage demand from 12% more over a three-year period to a 3% increase this July 1 and another 3% Jan. 1, 1961.

The fact that the parties were talking terms—whether in firm offers or "feelers"—led a federal mediator to say he was "a little bit encouraged" this week. Meanwhile, BLE warned that if there is no progress this week, or agreement to arbitrate, it will take a strike vote of members. This would be a step toward a Presidential emergency board—and fact finding.

• **Looking to Steel**—BLE and the other rail unions, the operating brotherhoods and the off-train unions, are relying heavily on the steel settlement to help their negotiations. They predict, privately, that it will guide the way to an agreement with the carriers without a strike.

Management demands for the elimination or revision of time-worn railroad work rules are an important issue in the bargaining. The steel companies agreed, under heavy pressure from all sides, to refer a similar demand for local work practices revisions to a joint committee, for nonbinding recommendations. The rail unions say, privately, that the work rules question might be resolved in somewhat the same way in their industry. But the carriers want more immediate relief from what they contend are costly pay and work practices.

Nevertheless, most of the optimism about the chance of a peaceful settlement of the rail work rules issue—and for a contract without a strike—is based upon the possibility of a steel-pattern joint study of rules and a plan for long-term revisions.

II. Mop-Up in Steel

After the steel settlement Jan. 4, the United Steelworkers signed new contracts quickly and smoothly with 11 major producers in the basic steel industry and with most of the smaller companies that participated in joint bargaining with the union. But at midweek, there were still some holdouts.

• **"Last Offer" Rejected**—Last week, the National Labor Relations Board polled employees of four of these on the "last offer" of their companies. Of 11,233 eligible, 7,329 voted to reject the companies' offers, according to NLRB; 3,024 voted to accept, and the other ballots were either voided or challenged.

Local issues have held up the completion of contracts between USW and the companies polled—Pittsburgh Steel Co., Acme Steel Co., Moltrup Steel Products Co., and Joseph T. Ryerson & Sons. Now that last offers have been rejected in an NLRB election, a Taft-

Hartley injunction against a strike was lifted. Acme workers struck for a day, returned when the company accepted a standard work practices clause.

However, USW's locals dealing with Pittsburgh Steel, the biggest of the four, have agreed to continue working.

III. Shipyard Strike

Contracts between the International Union of Marine & Shipbuilding Workers and Bethlehem Steel expired last July, with union and company deadlocked. The union wanted a substantial raise—31¢ an hour over two years—and fringe gains. The company took the same anti-inflation stand it was taking in the steel industry, and demanded contract changes to tighten up on job assignments and classifications.

Workers stayed on the job without a contract for six months. The company put into effect, unilaterally, what it described as new and more favorable work conditions.

• **East Coast Walkout**—Late last week, shipyard workers walked out at Hoboken, N. J., and at Quincy, Mass. At the latter yard, the strike stopped work on two atomic-powered missile ships and other Navy vessels.

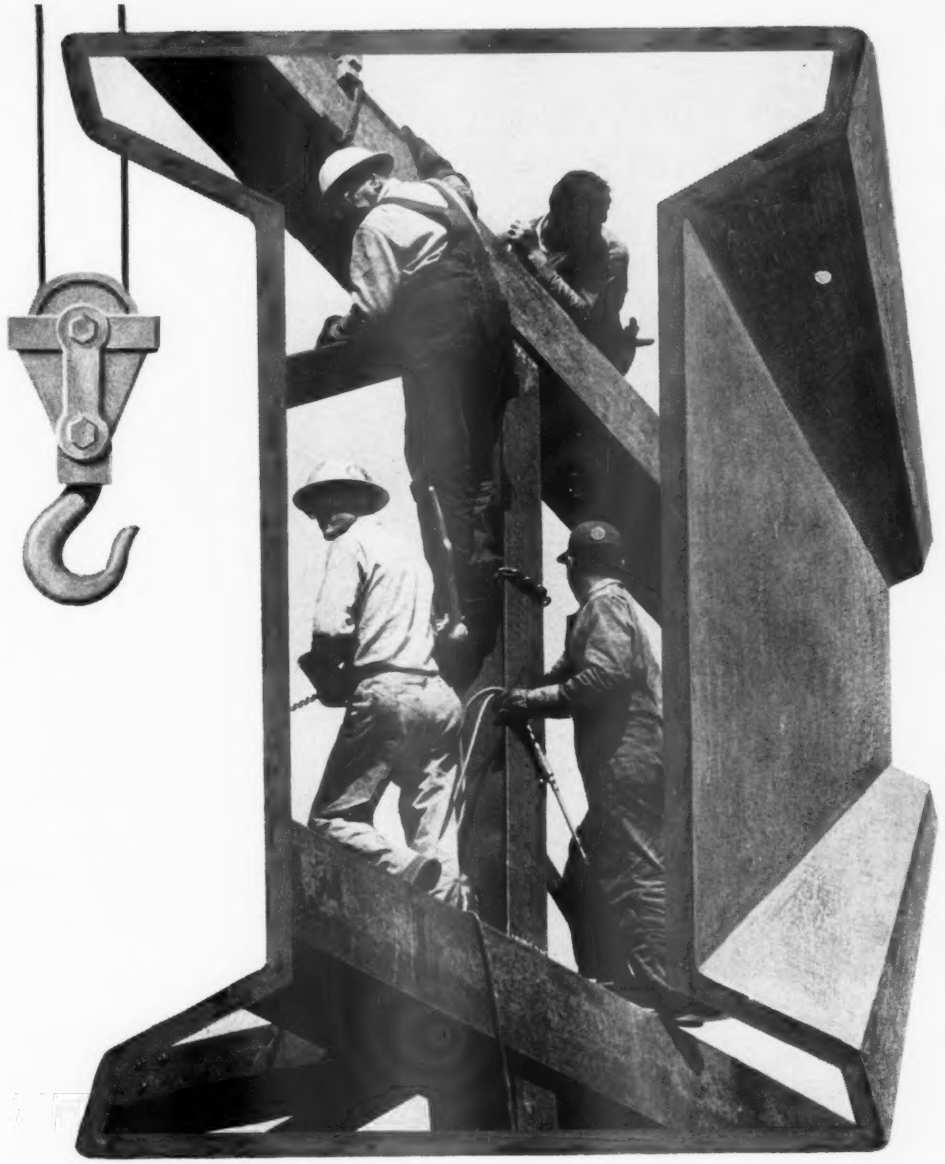
Wages appeared to be less an issue than the company's position on job classifications and other work rules. As happened in steel bargaining, the union contended that if Bethlehem had its way, job security would be lost.

Bethlehem recently raised the pay of its West Coast shipyard workers 23¢ an hour more over two years, to keep them at the level of pay in other Pacific yards. IUMSW says this has taken wages out of the dispute on the East Coast since the union expects a similar raise. However, Bethlehem contends that its workers along the Atlantic are already the highest paid and that it must resist cost-inflating demands in order to remain competitive with other shipbuilding and repair yards.

IV. Copper and Meat

The Federal Mediation & Conciliation Service made new efforts this week to settle the marathon strike that has curtailed Western copper operations since mid-1959. Currently, some 12,000 workers—represented by the Mine, Mill & Smelter Workers—are still on strike against the Phelps Dodge Corp. and Anaconda Co. Utah operations at Kennecott are still down because three minor craft unions haven't settled, barring the return of 4,000 MMSW workers.

Negotiations are under way between MMSW and Phelps Dodge and "some progress" has been reported. The union and Anaconda have been at a stalemate and there are rumors, unsubstantiated



but widely credited, that Anaconda might keep its Montana workings closed in view of its large new mines and ore reserves in South America. MMSW says these rumors are being spread to scare men back to work.

No matter what substance there might be in the rumors, Montana workers involved in the Anaconda strike are worried. One local turned its back on the MMSW position and settled recently for an estimated 17½¢-an-hour package. Anaconda offered the same terms to other locals. They rejected it.

• **Wilson Strike**—A strike by the United Packinghouse Workers against Wilson & Co. is three months old and, despite FMCS efforts, there is little hope of a settlement soon. Wilson's packinghouses are operating.

The UPW strike originally involved 5,650 employees in seven plants in six states. Some have returned to jobs, and Wilson has hired replacements for others. It has about 4,000 working now.

Wilson says it will not lay these employees off to take back strikers. This issue of jobs is now a critical one in the off-and-on negotiations. UPW contends that at least 2,400 members would lose jobs if the union accepted the company's terms.

Work rules were a key point in the bargaining that deadlocked before the Wilson walkout, and still are. However, there is a growing feeling that UPW would settle on pretty much the company's terms—if it could have assurances that no members would lose jobs.

The union has this new worry: The independent National Brotherhood of Packinghouse Workers has been busy organizing in the Wilson plants during the strike, and now claims to represent a majority of the Wilson production workers.

V. Bargaining Plans

The principal new bargaining of 1960 will be in the aircraft industry—where negotiations will get under way soon—and in electrical manufacturing.

In the former, the International Assn. of Machinists and the United Auto Workers plan coordinated negotiations covering some 600,000 workers.

Last week, IAM's contract strategy committee met in Denver to lay plans for its part of bargaining with 30 principal companies in the industry.

The committee set as its economic goal a 7%-a-year increase in wages and fringes, preferably in a two-year contract. It estimated this would cost 17¢ an hour per year.

The committee also called for "improvements" in working conditions—including the standardization of job classifications and the elimination of job evaluations. Both the economic and the non-economic demands are certain to run into industry resistance.

• **Annual Wage Talk**—In electrical manufacturing, the International Union of Electrical Workers and other unions that bargain with General Electric and Westinghouse are showing a primary interest in union security.

Under the auspices of the AFL-CIO Industrial Union Dept., GE and Westinghouse employees are being polled on what they want.

IUD said that the first 23,000 ballots counted gave top priority to a guaranteed annual wage. Other leading preferences were for severance pay, relocation rights and pay, and more supplementary unemployment compensation.

The "Bottleneck" in Congress Retires

Unions delighted as Chmn. Barden of House labor committee decides not to run. But they're less than ecstatic over Rep. Powell, his almost certain successor.

North Carolina Democrat Graham Barden—for 10 years the congressman most ready, willing, and able to frustrate labor's legislative demands—decided last week not to seek reelection to Congress. His move quickly raised labor leaders' hopes for pro-union laws in 1961.

A recent AFL-CIO legislative rally in Washington tabbed Barden—chairman of the House Labor & Education Committee since July, 1950—the unions' No. 1 bottleneck in Congress. Still, they talked of a major assault on the big labor laws—Taft-Hartley and Landrum-Griffin—in next year's new Congress (BW—Jan.16'60,p109). Barden's surprise announcement brightens their outlook considerably.

• **Hearings Barred**—Barden, who does not object to being described as "ultra-conservative, anti-union, and lazy," has never been apologetic about his lack of enthusiasm for the union leader's viewpoint. In past years, he frequently refused to hold hearings on bills the unions favored—thus keeping them bottled up in his labor committee.

Barden's likely successor to this powerful chairmanship, if the Democrats retain control of Congress in the November elections, is Rep. Adam Clayton Powell, (D-N. Y.) who would become the second Negro to head a Congressional committee. When Barden decided to retire, after 26 years in Congress, he said he did so after delaying the move for several years, partly because of the prospect of Powell's advancement under the seniority rules.

Many Democrats also are unhappy about the probable accession of the Harlem political leader to control of the labor committee. They note his defection from the Democratic Party in 1956 to support the Eisenhower-Nixon ticket. This, however, is not expected to overturn the strict seniority rules of Congress.

• **Tax Indictment**—Powell's prospects are also unlikely to be threatened by his current indictment in New York on charges of evading federal income taxes. Even a conviction would not necessarily bar him from the committee post, which he has announced he intends to take over.

AFL-CIO leaders, while delighted with Barden's retirement, are not overly enthusiastic about Powell as his successor. They are cagey about being able to work with him to their advantage. Powell has frequently added civil rights riders to proposed legislation. Union critics say that this has crippled chances of the passage of pro-labor laws and other social legislation in the past.

However, just on the union scorecard, Powell is right up their alley. The AFL-CIO's political wing—the Committee on Political Education—lists Barden as voting "wrong" on all major issues of union interest in last year's Congressional session. Powell, however, had "right" votes all down the line.

• **Shift From Senate**—Barden's departure will shift union strategy. With Powell in charge, the House committee would have about as strong liberal leanings as the Senate labor committee already has. In the past, union lobbyists have promoted their goals through the Senate committee, headed by Sen. Lister Hill of Alabama, before going to work on the House side. Hence next year, some of the pressure would be taken off the Senate group.

The long-term union goals include major changes in both Taft-Hartley and the Landrum-Griffin reform bill. Both were passed over the heated objections of labor leaders and, along with the reform bill last year, the Taft-Hartley law was toughened up in areas that labor intends to try and modify.

Rep. Carroll Kearns, of Pennsylvania, is the senior Republican on the committee. Even Kearns, who hardly rates high on COPE political scorecard, is considered more amenable than Barden in the union review. **END**

In Labor

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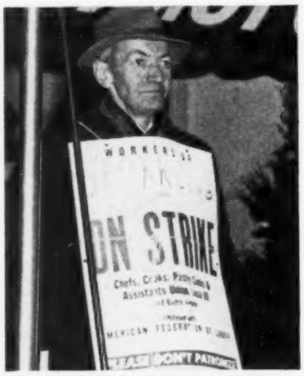
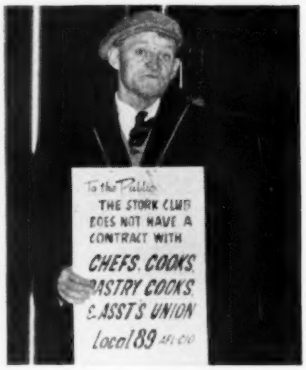
Stork Club Pickets Are Still on March, But Reform Law Has Changed Their Tune

Lonely pickets marching up and down before New York's noted Stork Club have had a change of message if not a change of heart. The turnabout took effect last week when the Landrum-Griffin law caught up with the Cooks, Pastry Cooks & Assistants local of the Hotel & Restaurant Employees union. The cooks have been picketing since January, 1957.





The picketing cooks took off their "on strike" signs and exchanged them for boards with an informative message (pictures) when the Stork Club filed unfair labor practice charges with the National Labor Relations Board. **The board is seeking a permanent injunction in court under the provision of the labor law that prohibits recognition or organizational picketing by a union not certified by NLRB.** Such picketing is banned after 30 days when no petition for a representation election has been filed.

The union will not file such a petition, saying that the pro-union employees are no longer with the Stork Club. It plans to take advantage of another provision under L-G that allows informative picketing. So, unless the court rules otherwise, pickets will continue to haunt the fashionable night spot.

• • •

G. Allan Dash, Jr., Named Arbitrator By Philadelphia Dock Employers, Union

Philadelphia's unique—and generally successful—dock peace plan has a new arbitrator. G. Allan Dash, Jr., has been named to succeed the Rev. Dennis J. Comey, S.J., who worked with the city's waterfront employers and union to set up an arbitration plan in 1951 (BW—Jun.6 '53,p158).

Dash, president of the National Academy of Arbitrators, plans to follow standard arbitration procedures. This will make his role in dock disputes different, much more limited, than that of Father Comey.

This is in keeping with an agreement between the Philadelphia Marine Trade Assn. of employers, and seven locals of the International Longshoremen's Assn., in effect since Sept. 30. **Not because of any dissatisfaction with Father Comey, who resigned in mid-1959, the employers and union decided to limit their umpire's powers and retain more dispute-selling responsibility** through a four-man joint grievance committee and, the second step, a six-man labor-management dispute panel. If a dispute isn't settled in the first two steps, the arbitrator will be called in.

Father Comey's unlimited powers made him unique in U. S. labor circles. He had jurisdiction whenever a contract clause was broken—or questioned. There was no set arbitration rules; he made his own. He could hand down any ruling he considered necessary in the interest of dock peace, and it became binding.

When he resigned after eight years, he said that he had established precedents for almost every clause in the dock contract, and complained that he was being called in too frequently to settle what should be handled by negotiation.

• • •

'Reasonable' Balance in Apparel Imports From Far East Urged by Clothing Union

Men's apparel imported from Japan and Hong Kong is taking over a steadily increasing proportion of the U. S. domestic market, Secy.-Treas. Frank Rosenblum of the Amalgamated Clothing Workers protested this week. **According to ACW figures, the imports are now the equivalent of the annual production of 50,000 U. S. workers, and the volume is still rising.**

Rosenblum, just back from a one-month survey trip to the Orient for his union, said that cheap shirts, slacks, sportswear, and other articles of men's clothing are made for export to the U. S. at wages of from 8¢ to 12¢ an hour. Work on similar apparel in this country is done at wages ranging from $1.75 to $2 an hour—plus 26¢ for fringes.

The ACW official blames "shortsighted" importers for the foreign competition in apparels. The union doesn't want the imports barred; it favors a "reasonable" balance, instead, to be worked out by the various governments.

• • •

Rapid Growth in Welfare Pay

Private industry payments for pension, welfare, and unemployment benefits increased by $1.6-billion from 1958 to 1959, to a total of $15.4-billion, according to a National Industrial Conference Board report. NICB said payments tripled in the last decade.

Exactly half of the total 1959 fringe payments went into private pension and welfare funds, says NICB. More than one-fourth went to old age, survivors, and disability insurance. The balance went for unemployment insurance and compensation for injuries.

Unemployment insurance rose by one-third between 1958 and 1959. Higher tax rates went into effect in many states in order to replenish depleted reserve funds, reports NICB.

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PERSONAL BUSINESS

BUSINESS WEEK
JAN. 30, 1960

A BUSINESS WEEK SERVICE

The "cholesterol controversy" which has blown up in recent years still has not been decided one way or the other.

The big question is: Does a low blood cholesterol level tend to prevent or arrest the development of atherosclerosis (hardening of the arteries) which causes a high percentage of heart attacks and strokes? **You've probably heard both emphatic "yes" and "no" answers.**

On the other hand, most experts now agree that blood cholesterol level can be lowered by careful dieting. And a growing number of leading heart specialists and nutrition experts feel that "anti-cholesterol" diets would be a good idea for a great many men over 40. **This means business executives in particular, because of their admittedly rich diets.**

Such dieting is not easy to take. It means giving up a long list of good things from butter to bacon; in fact the wisecrack is that just about anything good is forbidden.

One thing that may make such a diet not so tough to take is a simple statistic: More than 25% of all American men over 35 are killed by heart attacks and strokes.

The theory behind anti-cholesterol dieting is this: High concentrations of cholesterol—a fatty substance found in animal tissue and also manufactured by the body—help form crust-like adhesions on the inner walls of the arteries, thus restricting the flow of blood. This condition makes you prone to heart attacks and strokes. **The theory does not reject the generally accepted idea that other independent factors are closely related to atherosclerosis**—obesity, high blood pressure, heredity, sex (women apparently are shielded), exercise habits, smoking, diabetes, and emotional stress. But it singles out cholesterol as the prime culprit.

And there has been evidence to back the theory. **A recent study, for example, indicates that a cholesterol level of 210 (mg. per 100 cc.) might be considered a maximum "safe" figure for men.**

Of nearly 1,800 men surveyed, about 1,500 showed no evidence of coronary disease. Cholesterol level of this group ranged between 210 and 245, with men from 50 to 55 at the higher end. The remaining group had lived through heart attacks, and these men had an average cholesterol level of slightly over 300.

If you want to reduce your cholesterol level, how do you do it? There is a twofold approach:

(1) You cut down sharply on animal-derived foods rich in "saturated" fats which are the source of cholesterol in the diet.

(2) You eat more of certain plant foods containing high amounts of "unsaturated" fats, which have, in effect, an anti-cholesterol action.

Especially valuable in lowering cholesterol levels are "polyunsaturated" fatty acids. The most plentiful of these is linoleic acid, which is found concentrated in corn, soybean, and cottonseed oils. It is claimed that long-term use of this acid in the diet will lessen the chance of atherosclerosis.

How tough is an effective low-cholesterol diet? It's plenty tough. It means doing without or greatly cutting down your consumption of high saturated-fat foods—butter, cream, ice cream, whole milk, solid cheeses, eggs, pastries, pies, gravies, bacon and other fatty meats, fried foods (unless prepared with corn or cottonseed oils).

In their place, **you live on such items as skimmed milk, fresh and canned vegetables, salads, fruits, bread, cottage cheese (uncreamed), broiled or baked lean meats and poultry, and fish.** You can also figure on consuming 1 oz. of corn oil a day. You can use special high linoleic-acid products, such as Emdee margarine in place of butter (Pitman-Moore, $1 a lb. at drugstores).

On the other hand, olive oil for salads is allowed. And **liquor is not forbidden;** nor is the sugar that it takes to make a sweet cocktail.

Warning: Special corn oil and similar products won't lower cholesterol if you merely add them to a usual high animal-fat diet—they must be substituted.

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Pan American, TWA, BOAC, and Sabena will drop the surcharge for jet travel over the North Atlantic Mar. 1 ($20 one way, de luxe), and other airlines serving the area probably will follow suit.

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Two tax-saving ideas in the field of private trusts are in trouble. The House Ways & Means Committee has approved bills that would reduce the tax advantages of "multiple" and "dual purpose" trusts. Indication now is that both bills will pass.

Multiple trusts. In some cases, trusts are taxed like individual persons, with "ordinary" income tax rates applied. This happens when the current trust income is held by the trustee and is added to the principal, instead of being paid annually to the beneficiary. The tax—which is paid by the trustee—is determined by the regular tax-bracket method. The principal is built up in this manner over the years, and is eventually turned over to the beneficiary, in many cases with no further taxes due (this is, in itself, an important trust advantage).

To cut high-bracket taxes paid by their trusts in situations of this kind, some people have established two or more separate trusts, covering the same total amount of property—thus "splitting" the total income. The idea, of course, is that each separate trust falls into a lower tax bracket. **The proposed new law would tie up this loophole by applying a tax based on the total trust income for the year.**

Dual purpose trusts. These are set up with more than one beneficiary. In some cases, the beneficiaries have been a charity and an individual, with the money going to the charity treated as "income," and the money going to the individual treated as "return of principal"—and thus non-taxable. **The new legislation, in effect, taxes the individual.**

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Potpourri: Sonarscope, a fish spotter and depth sounder that's hard on fish but a boon to fishermen, fits any size craft, runs on lantern batteries, and adjusts itself to indicate fish and depth conditions (Pacific Mercury, 13232 Leadwell, North Hollywood, Calif.; $124.50) . . . **Now you'll be able to buy Scotch at $3 a bottle or less at the newly opened duty-free shops at Prestwick and Renfrew airports in Scotland** . . . Both productive and decorative, the **Climbing Strawberry,** or **Sonjana,** developed in West Germany, will be available to gardeners this spring . . . **Five-up,** the American domino game fast-growing in popularity among adults, is just one of the many versions of the ancient game described in the new book, **Dominoes,** by Dominic C. Armanino (McKay, $4.50).

MANAGEMENT

The Soviet Executive

U. S. economist finds the Red manager able, hard-driving, wholly committed to the Communist system.

When Nikita Khrushchev boasts that Russia will soon outstrip the U. S. in industrial production, he is counting on thousands of men like those in the picture to do the job. For that little group of six is typical of the hard-driving executives who have doubled Soviet production in the past 15 years. And they are men who, American experts believe, will certainly keep Soviet production spurting ahead, though they may not achieve the 9% annual increases called for by the present Seven-Year Plan.

The U. S. businessman has a growing and healthy respect for the effectiveness of these professional executives developed in Russia, whatever he may think of Communism as a political system or a social ideology. At the same time, the American for a long time had only the foggiest idea of how his Russian counterpart got that way—of how he lived from day to day, how he got his job, and what he thought of his homeland and the world.

• **Popular Approach**—In the last few years, quite a bit of light has pierced this fog. A new ray was cast last week with the publication of the Red Executive (Doubleday & Co.), by David Granick, an economist specializing in Soviet industry. It's a book free from pedantic overweight, and is written rather in the manner of popular sociology such as William H. Wyte's The Organization Man.

Granick delves deeply into the Soviet manager: his training, his methods, his rewards. What's more, Granick shows the place of the Red executive in Soviet society and his relation to the ruling Communist Party.

Actually, Granick gives no detailed case studies of his executives, but he presents ample data to permit the fleshing out of a composite picture of the typical Russian manager. If you take Granick's information and apply it to such a man as the seated figure in the picture you can get a pretty good idea of his way of life.

• **The Composite**—Call the man Dimitri Sobolev—that's not his name. He's about 45 years old, which means that like most heads of enterprise in Russia he's younger than his American counterpart. His parents were storekeepers before the revolution; but by the time Sobolev reached college age, in the 1930s, the old prejudice against such bourgeois origins had faded. On his merits, Sobolev was able to win a place in an engineering school. Indeed, the so-called classless society finds an increasing share of its executives coming from white-collar backgrounds, despite the fact that education, all the way through, is free to all who can qualify. Sobolev, like other college students, got living expenses as well as free tuition. In return, he had to take any job assigned for the first three years.

Sobolev's training, like that of most engineers, was almost wholly technical, and included no slightest smidgen of management training. It was not till he took his first job—assistant foreman in a grinding shop—that his bosses spotted his executive talents and marked him for promotion in the managerial line. Before that, the nearest he had come to administrative training was in school, as an officer of the Komsomol—the Young Communist Organization.

• **Dual Career**—Membership in Komsomol was the first step toward what was to be a sort of dual life—Party and business. The second step came soon after he went to work, when he applied for membership in the Communist Party itself. Like most men marked for executive advancement he was quickly accepted. From then on he was to be concerned with the advancement of Communist ideology and the state along with the actual production of goods. The duality marked no real separation, for Sobolev's standing in the Party could sharply affect his career.

The Red executive is not dependent solely on the Party; he is also, for all his considerable power, completely under the thumb of higher authority as far as the making of major decisions is concerned. Higher authority sets his goals and regulates his costs, research, markets, and capital. Granick describes him as "an organization man, filling a slot in an industrial bureaucracy which has lines reaching to the very heights of Soviet power."

Very little light is cast by Granick, or by any other writer, on what those heights are like, or even on the executive above the level of manager of an individual enterprise. Some observers guess he is more likely to be a trained economist than someone up from the factory level.

• **War Duties**—As for Dimitri Sobolev, he steadily climbed the engineering ladder and kept busy in Party work until World War II spread to Russia. In the war, he and most other engineers were exempted from military service. The Party shipped him off as assistant Party Secretary in one of the new indus-

Great Pressures, Great Rewards

trial towns in Siberia. There, for five years, he peered over the shoulders of the local factory managers, making sure that production quotas were met or exceeded. He did well at this work, quickly learning how to get things done, even if it meant going outside official channels. He did so well that soon after the end of the war he was made assistant chief engineer of a big new machine tool plant near Leningrad.

Still only in his early 30s, Sobolev was now within reach of the top industrial jobs. But progress never meant any chance to relax. Every two or three years, the Ministry of Machine Tools shifted him to another plant. Wherever he went, he found new quotas to be met or exceeded; when he did so, he received a bonus of 30% or even 50% of his base pay.

Meeting quotas forced him to ignore regulations, even when it might expose him to a long prison term. Frequently he had to juggle his books so that necessary expenses could be covered by funds earmarked for other purposes.

• **Goals Are Set**—The essence of the Soviet system is that the manager's goals and restrictions are set for him, but the responsibility for success is his alone. No excuses for failure are accepted. Granick finds that in this aspect his position has analogies to that of an independent businessman.

At the same time, Granick says the Soviet manager must learn to make the system work for him. Somehow, he must get the omnipresent Party observer to accept his breaches of the rules, or better still, help him to breach them. He must get the union representatives to go along when he infringes on the rights of workers, as when he puts funds earmarked for housing into a new shop instead. Getting the Party man and the union people to go along is not too difficult—their bonuses too depend on his production. His own Party connections can often help smooth the way.

Paradoxically, there is evidence that the Soviet manager has lost some of his freedom of action since Khrushchev inaugurated his "decentralization" plan in 1957. Khrushchev took the control of industries away from ministries in far-off Moscow and turned it over to regional bodies. So the Red executive found the bosses, both state and Party, a lot nearer him than before.

• **Rich Rewards**—Whether top direction is near or far, the manager who is competent and somehow achieves the demanded production levels will be promoted relatively fast and rewarded greatly. Thus Sobolev became director

TOP LEVEL CONFERENCE in a Russian plant. The boss (seated) typifies the engineer-turned-administrator who heads so many big industrial enterprises in the Soviet Union.

of his plant while still in his early 40s.

The pay puts him in the Soviet's high income group; with bonuses he gets perhaps 6,000 rubles a month—five or six times as much as a production worker. That translates to about $600 a month at the tourist rate of exchange, or $1,500 at the official rate. Either way, the Russian executive has a much lower standard of living than his American counterpart, but his standard is dramatically above the worker's.

Sobolev lives in a new four-room apartment, with his wife, two children, a maid—a lot of space by Soviet standards. The factory supplies him with a chauffeur-driven car. In summer, the family goes to a small dacha that he has built in the country. When the children go to camp for a month, he and his wife may spend a few weeks at a resort on the Baltic Sea.

• **Unending Pressure**—It's a comfortable life, but at the office the pressure is still unrelenting. The days are past when managers were shipped to labor camps if they missed quotas, but even a short run of bad luck or one mistake can mean quick demotion. Sobolev must run fast to stay where he is.

The pressure on Sobolev also weighs on his whole management team. Although he is solely responsible for plant production, in practice he delegates a great deal of authority to the managers of the various shops. The Soviet shop, like the plant itself, tends to be much larger than a U.S. counterpart. The shop superintendents generally have their own staffs of planners, engineers, time-study men, and bookkeepers.

In a sense, the shop superintendent is running his own small factory. He, too, has a quota to fill, and gets quotas of raw materials, machines, and labor to do the job. He, too, is tied to a bonus system. And he in his turn sets quotas for his foremen and workers. All down the line, performance bonuses are a major part of income.

• **Inefficiencies**—The sharp pyramidal lines of Russian factory organization and the total dedication to meeting quotas can lead to inefficiency and to practices that are harmful in the long run. Maintenance is often scanted, materials and labor hoarded for emergencies, spare parts output skimped.

Russian planners have been aware of the wasteful side of an implacable drive for rising production, but they have been willing to pay the price. Just recently there have been signs of a shift; this year bonuses will depend to some extent on cost cutting, as well as on quota performances.

Granick points out the frequent stresses between the Red executive and bureaucrats of both state and Party, but he nonetheless concedes the manager's total commitment to the Communist system. He sees little or no chance that the businessmen of Russia will ever become a dominant power group, ganging up on their government.

In concluding, Granick believes there is no real conflict, on either external or internal affairs, between the Red executive and the Party official. "Rather," he says, "the industrial manager and the Party Secretary are old classmates, neighbors, and colleagues, seeing the world from the same perspective." END

Compact Reactor Gives Satellites

Auxiliary power for space vehicles can be had from a tidy little nuclear plant light enough to be hoisted by rockets.

As early as 1948, there was talk of using observation satellites in defense. One big stumbling block was that in order to form a dependable link in the U S. defense network, a satellite would have to carry a reliable source of electricity for its instruments to give it long life. No known source was compact or light enough to serve the purpose.

Under the most favorable conditions, it would take some half a million pounds of conventional storage batteries to supply the several kw. of electricity for a year or more a satellite's communications system would have to operate. Even now, no U.S. rocket engine can boost anything like half a million pounds into orbit around the earth. Lifting 1,000 lb. is problem enough.

• **Persistence**—But the power supply itself is no longer such a worry, thanks to the enterprise and imagination of the RAND Corp. and the Atomics International Div. of North American Aviation, Inc. More than a decade ago, RAND was so intrigued by the promise of satellites that it took the power problem to Dr. Chauncey Starr, general manager of Atomics International. Starr's proposed solution: develop a miniature nuclear reactor to replace that 500,000 lb. of storage batteries.

SNAP II reactor, developed by Atomics International, weighs a scant 220 lb. by itself.

The reactor shown in this picture and the power system explained in the diagram are the result of the research that Atomics International scientists put into Starr's idea, first on their own and then with Defense Dept. funds. It is called Snap II.

Snap II, which reached full power late in 1959, can feed 3 kw. of electricity for a year to a satellite communications system. Yet the reactor alone weighs only 220 lb., and even with a complete auxiliary power unit it only weighs 600 lb. With the shielding necessary to protect instruments in an unmanned space vehicle from radiation, the system would weigh 900 lb; it would take about 2,400 lb. in a one-man space ship. At 900 lb., it could neatly be hefted by either the Saturn or Centaur rockets, and even a 2,400-lb. payload shouldn't be hard to loft with the second-generation rocket engines on the way.

• **Cheaper, Too**—Snap II's particular beauty, according to Joseph R. Wetch, Atomics International's group leader for compact power plants and chief project engineer for the program, is that it can be scaled up from 3 to 30 kw. without much increase in size or weight—and up to 300 kw. with very little change in size and none in the basic design. A 30-kw. system for a manned vehicle, at 3,400 lb., would weight only 42% more than the basic 3-kw. unit. This is because for every tenfold increase in power, shielding weight has to be increased only 1/12. In the case of the 30-kw. unit, most of the 1,000 lb. in added weight is in the power system, not in the shielding.

The virtues of Snap II, besides lightness, include low cost. Its diet consists of uranium that has been blended with zirconium hydride so that it will be consumed more slowly. This means that it needs only about 1/10th as much expensive uranium for its initial charge as a fast reactor burning the fuel in its pure state does, and the bill is only $50,000 to $100,000 instead of about $1-million. Ready to go, a Snap II cost only about $400,000.

• **Off Into Space**—When Snap II goes to work, its first jobs will be in space stations and in vehicles for deep space probes. With Snap II and a Centaur or Saturn booster, a probe should be possible in 1964.

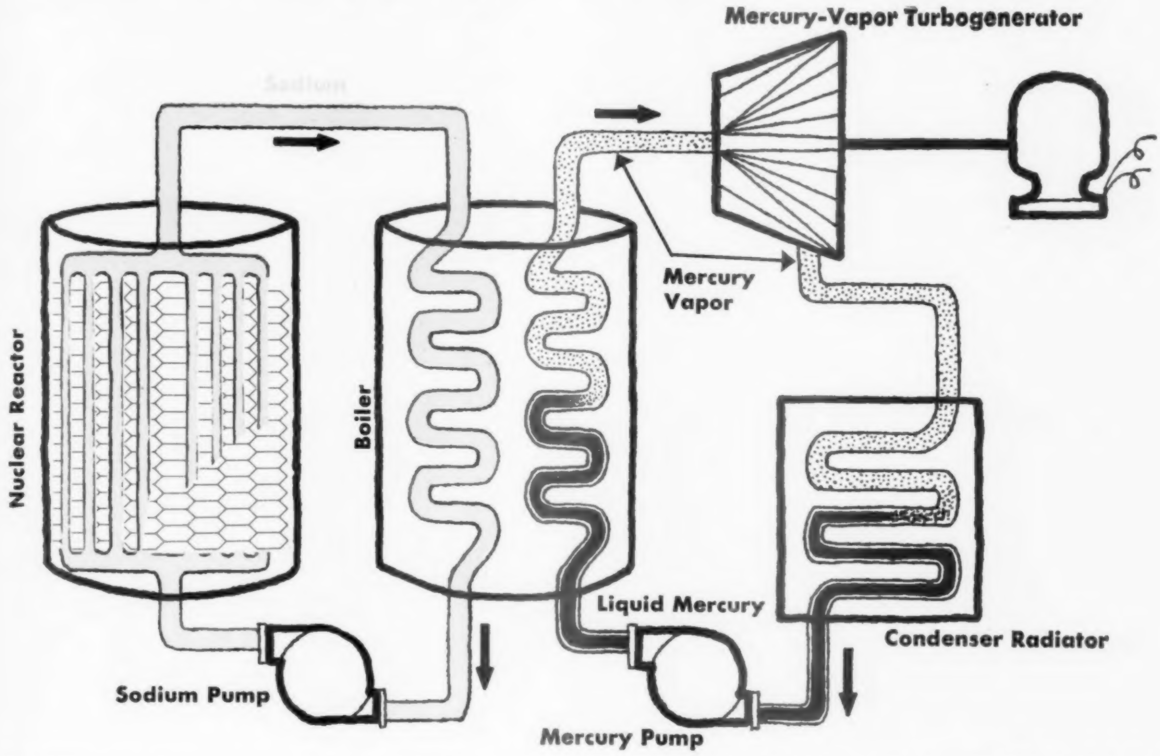
A 30-kw. version of the compact reactor should also be able to provide power for a small ion propulsion system (BW—Feb.15'58,p119), giving a gentle continuous push to a satellite already put into orbit by chemically propelled rockets. Ion propulsion might be used to push a satellite already in an orbit 300 miles up into an orbit, say, 22,000 miles high. A Snap II generating 300 kw. would give an ion propulsion system enough muscle to take a vehicle to Mars.

• **Meanwhile, on Earth**—But Snap II also has a big potential closer to earth. Wetch cites use in communications, weather, and navigation satellites. Communications satellites could broadcast with Snap II's 30 kw. of power, he thinks—and at message costs comparable to those for overseas radio and less than those for cable.

On terra firma, the reactor could come in handy wherever a completely unattended source of power is required—for instance, in Arctic weather stations, radio beacons, navigation links, communications stations, and underwater sonar nets. Wetch thinks the technology that went into Snap II can also be used eventually to build a power plant portable enough to travel around on a large truck.

• **Round and Round**—In its inner

a Year's Supply of Juice



COMBINED with power conversion system, the package comes to 600 lb. to do job that would take 500,000 lb. of batteries.

workings, Snap II consists of a reactor core containing 61 cylindrical fuel elements. The nuclear reaction taking place within this core delivers 50 kw. of thermal energy to a liquid sodium heat transfer fluid that travels through the core—entering at 1,000F and exiting at 1,200F (which makes Snap II the hottest reactor so far known to the free world). Tubing carries the hot sodium to a boiler containing mercury, which vaporizes and drives a miniature mercury-vapor turbogenerator. The mercury vapor then goes through a condenser and back into the boiler.

This method is actually just a variation of a conventional vapor cycle—still the best method to use in space, according to Wetch. The only difference is that more exotic materials are utilized.

Another future development may well be to eliminate the boiler and use the heat from the nuclear reaction to vaporize the material right in the reactor. This would make the system simpler and more reliable, but it may be a long time coming, Wetch says.

A unique feature of Snap II's power conversion setup is that it has only one moving part—a rotating shaft that floats on a pad of liquid mercury and drives the turbine, generator, and all pumps and bearings. This should contribute to long life with no maintenance.

• **Two-Thirds Ready**—Atomics International has Snap II two-thirds finished by now. The reactor has been checked at full power, and the power conversion unit—developed by Thompson Ramo Wooldridge—is also in working order. But the two still must be put together—basically a matter of detailed engineering, environmental testing, and such.

The auxiliary power unit must be rigged to start automatically on a radio signal from earth. Usually, the signal will be given only after the satellite has attained its orbit, so as to eliminate the possible danger to personnel on the ground of escaping radiation.

All the working parts of the system must be checked for reliability, too, since Snap II has to operate without maintenance for a year in the vacuum of outer space. But Atomics International thinks all the problems can be solved, mainly because both the reactor and power conversion unit are so simple in design.

• **Other Methods**—Rocket scientists have suggested other ways to supply auxiliary power in space. Two of the best explored are radioisotopes and solar cells. But, in Wetch's opinion, neither is effective competition to Snap II. Solar cells, which make use of the sun's energy, are too expensive and difficult to package, he believes. They were employed on the paddle-wheel satellite launched by the U. S. last summer (BW—Aug.15'59,p32). Radioisotopes—materials that emit thermal heat—are the energy source in the Snap I and Snap III projects, pioneered by the Martin Co. for the Atomic Energy Commission. But radioisotopes can't deliver much more than 100 watts, and they pose a safety problem, because radiation is always present. They can't be turned on and off as in Snap II.

Some scientists still have faith in radioisotopes, however. Work is continuing on the Snap III principle at Westinghouse and other companies, with the hope of adapting them for use on ground or water bases.

• **Snap II's Prospects**—For trips into space, Snap II seems the strongest candidate at the moment. There has been some question of danger from fissionable products if a satellite equipped with Snap II disintegrated on reentering the atmosphere. But Wetch thinks the material would be dispersed widely enough to avoid contamination troubles. END

Record Earnings for the Nation's Billion-Dollar Banks

BANK	DEPOSITS Dec. 31 1959 Millions of Dollars	DEPOSITS Percent Change From 1958	EARNINGS PER SHARE 1958	EARNINGS PER SHARE 1959	EARNINGS PER SHARE Percent Change	CAPITAL FUNDS Dec. 31 1959 Millions of Dollars	LOANS Dec. 31 1959 Millions of Dollars	INVESTMENTS Dec. 31 1959 Millions of Dollars
Bank of America (S.F.)...	$10,625	+3.1%	$3.01	$3.37	+11.9%	$633	$6,600	$2,725
Chase Manhattan (N.Y.).	7,526	+1.9	4.23	4.91	+16.1	656	4,489	1,536
First Nat'l City* (N.Y.)....	7,235	+1.5	5.02	5.66	+12.7	765	4,420	1,704
Chemical Bank N. Y. Trust	3,711	−8.7	4.08	4.60	+12.7	397	2,222	786
Morgan Guaranty (N.Y.).	3,363	−4.8	5.20	5.86	+12.6	518	2,260	693
Security-First Nat'l (L.A.)..	3,216	+4.2	3.25	3.99	+22.8	239	1,553	1,230
Manufacturers Trust (N.Y.)	3,046	−6.5	4.07	4.69	+15.2	231	1,462	884
First Nat'l Bank (Chi.)....	2,708	+0.1	4.52**	5.10**	+12.8	276	1,586	808
Bankers Trust (N.Y.).....	2,703	−2.7	5.47	6.80	+24.3	277	1,581	564
Continental Ill. (Chi.).....	2,387	−6.3	8.10	8.52	+ 5.2	282	1,290	804
National Bank of Detroit..	1,786	+1.1	4.73	5.10	+ 7.8	156	775	779
Mellon Nat'l Bank (Pitt.)..	1,753	−4.4	8.36	8.94**	+ 6.9	290	1,049	574
American Trust (S.F.)......	1,709	+2.2	3.61	4.12	+14.1	124	976	510
Irving Trust (N.Y.).......	1,674	−5.7	2.59	2.95	+13.9	143	952	383
Crocker-Anglo (S.F.).....	1,657	+8.5	2.23	2.56	+14.8	125	972	491
First Nat'l Bank (Boston)..	1,607	−2.8	6.50	7.29	+12.2	197	961	417
Hanover Bank (N.Y.).....	1,587	−7.4	3.52	3.97	+12.8	177	940	318
Cleveland Trust	1,332	−1.2	23.75	26.96	+13.5	116	827	384
California Bank (L.A.)....	1,196	+7.6	3.01	3.89	+29.2	72	637	359
First Pennsylvania (Phil.).	1,076	+0.6	3.47	3.92	+13.0	92	628	191
First Western Bank (S.F.)..	1,062	+9.3	2.24	2.69	+20.1	72	572	425

Data: M. A. Schapiro & Co., Inc. *Includes trust affiliate **Adjusted

They Should Get Better in '60

The nation's billion-dollar banks, which enjoyed record operating earnings last year (table), are looking forward to more of the same. The prospect is that heavy loan demand and high interest rates will continue through this year, and that earnings will increase even further.

Over-all, earnings were up 14.5% for the largest banks in the country. In New York City, aggregate bank earnings topped the $300-million mark for the first time, with Bankers Trust Co. leading the way with a 24.3% increase. In California, where banks also did well, star performers were the California Bank (up 29.2%) and Security-First National of Los Angeles (up 22.8%).

• **Money Pinch**—This surge in earnings came while deposits were either stable or declining. Many of the big Eastern banks lost deposits, while those in California, reflecting a rapid pace of economic growth, showed increases. First Western Bank & Trust of San Francisco, the only newcomer to the billion-dollar list, was out in front with a 9.3% jump in deposits.

Rising interest rates were not an unmixed blessing for the banks:

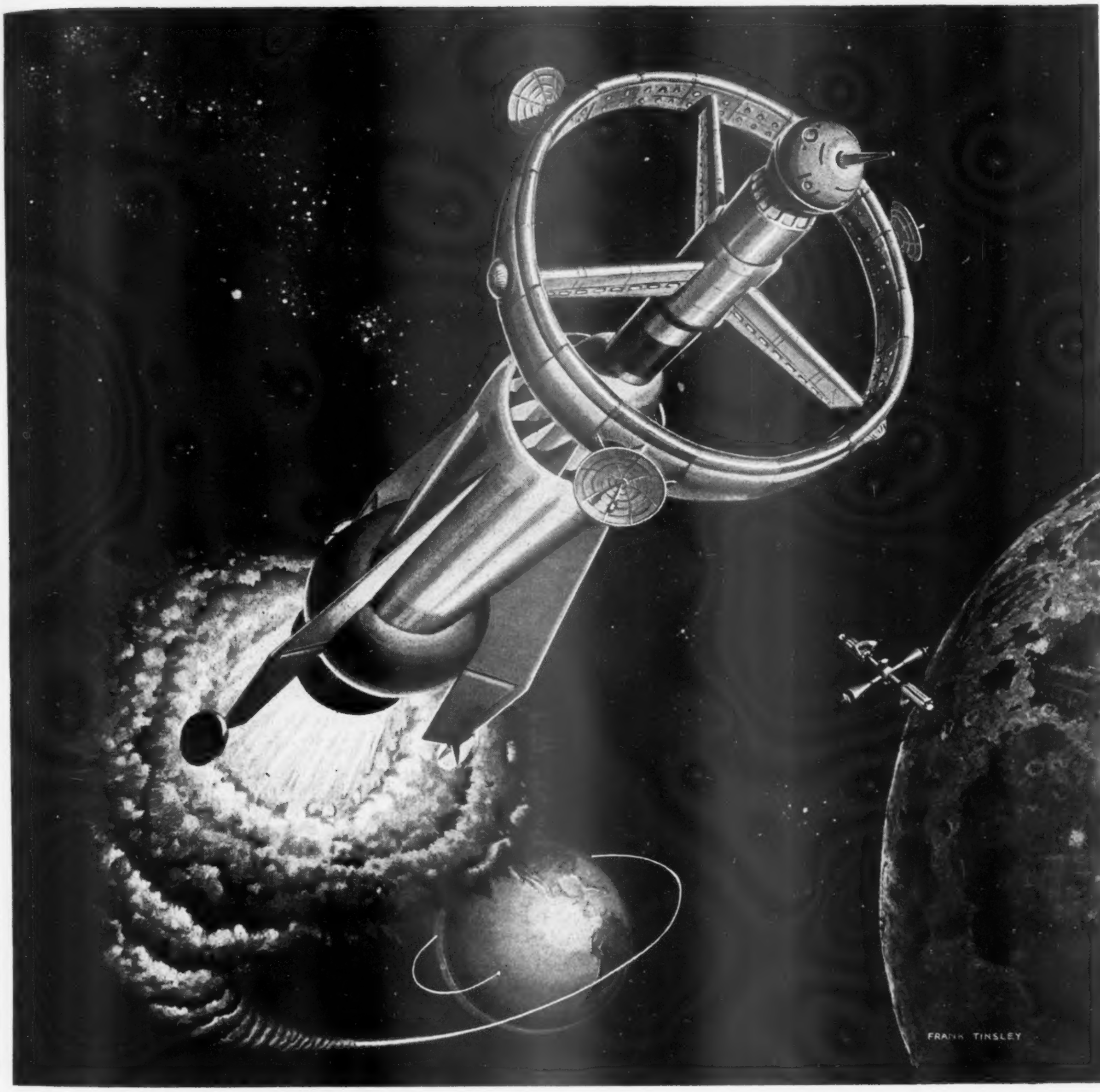
• In order to satisfy record loan demand, the banks have had to sell large blocks out of their bond portfolios, at substantial losses. These losses, which are not reflected in per-share earnings, run over $75-million for the large New York banks. The impact of such losses is softened by the fact that banks can use them to offset operating income and thus reduce income taxes. Nevertheless, the collapse of bond prices hurt.

• As the banks have cut their bond portfolios and increased loans, they have pushed loan-deposit ratios close to the highs of the late 1920s. The loan-deposit ratio, which is the best indicator of the banks' ability to extend credit, is now about 70% in New York and about 60% in other centers. Bankers say their ability to expand loans will depend largely on whether the Federal Reserve makes additional credit available. Stunting of the growth of bank loans could limit gains in operating earnings.

• **Holding Back**—With the banks as tight as they are, many bankers say they plan to cut back the number of long-term capital loans they are willing to make. In its annual report, New York's First National City Bank says its primary function is to meet the short-term requirements of its customers, and as much of their longer-term needs as it can supply, "when they are for credit-worthy and constructive purposes."

National City's tough attitude toward long-term loans—shared by most other banks—isn't based only on banking theory, however. Bankers have sold off so many of their government bonds—which are frequently used as security for borrowing from the Federal Reserve's discount window—that they have almost run out of bonds on which they can borrow.

This means that bankers, increasingly, will favor short-term credits for working capital purposes, while shunning loans for fixed investments or for speculation. Bankers don't want to be in the embarrassing position of needing to borrow from the Fed but of not having any collateral the Fed will accept. END



STEPS IN THE RACE TO OUTER SPACE

Atomic Pulse Rocket

This is the Atomic Pulse Rocket, a pot-bellied space ship nearly the size of the Empire State Building, propelled by a series of atomic blasts.

The enormous rocket (weighing 75,000 tons fully loaded) is designed to leave Earth with a thrust of 100,000 tons. Altogether a thousand atomic blasts—each equal to 1,000 tons of TNT—are fired from a low velocity gun into a heavy steel rocket engine at a rate of one per second until the vehicle leaves Earth's atmosphere. Then steam and vaporized steel maintain the thrust. After transit speed is reached, and the propulsion system shut off, power is provided by solar batteries plating the wing and body surfaces.

Inside the rocket, living quarters are situated in the rim of a pressurized wheel-like cabin which revolves to provide artificial gravity. Radio and radar antennae revolve with it. Tubular hydroponic "gardens" on either side of the rim grow algae to produce oxygen and high protein food.

The Atomic Pulse Rocket could transport payload to the Moon at $6.74 per lb., less than one quarter the prevailing air freight charges over equivalent distance.

A similar project is past the pilot-study stage in the Defense Department.

ARMA, now providing the inertial guidance system for the ATLAS ICBM and engaged in advanced research and development, is in the vanguard of the race to outer space. For this effort, ***ARMA*** needs scientists and engineers experienced in astronautics. ***ARMA***, Garden City, New York. A Division of American Bosch Arma Corporation.

AMERICAN BOSCH ARMA CORPORATION

In Finance

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Jones & Lamson Offers New Plan For Leasing of Machine Tools

Jones & Lamson Machine Co. of Springfield, Vt., has introduced a plan for leasing machine tools that's designed to avoid any Internal Revenue Service interpretation that a lease agreement is in fact a sales agreement, thus disallowing rental cost as an expense. IRS and Kearney & Trecker Corp., Midwest machine tool maker, have hassled over precisely this tax point, but J&L has taken several steps that, it feels, clarify the problem.

Under the J&L plan, no downpayment will be required —unlike present lease agreements in the industry, which generally require a 25% downpayment. Moreover, unlike other plans, the lessee is given no option to purchase the equipment.

IRS has argued that a large downpayment and a purchase option on the equipment make lease agreements in effect sales contracts. In such cases, it has disallowed rental costs as a business expense; lessees have had to capitalize the equipment and write off depreciation on it.

Rental cost of the new plan will be $20.50 per month per $1,000 of equipment value, which is about normal for the trade. **J&L's plan also provides that customers may include in the contract machines made by other companies** as well as by J&L. J&L will purchase the outside machines and lease the whole package.

While some in the trade feel that J&L's new plan could be a useful sales tool in the cyclical machine tool industry, others that haven't taken to leasing in a big way doubt it will initiate any new spurt toward leasing. They feel that the tax advantages are dubious, and that J&L's no-downpayment plan will prove to be uneconomical on specialized tools. As one put it: "If we had to sell our special tools secondhand, we could get back only one-third of our cost."

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American Overseas Finance Co. Plans Merger With Transoceanic Development

Two International lending groups, American Overseas Finance Co. and Transoceanic Development Corp., Ltd., are planning to merge. Stockholders of the two companies include Kuhn, Loeb & Co., First Boston Corp., S. G. Warburg & Co., Ltd., of London, International Basic Economy Corp., and CIT Financial Corp. The new company, to be known as Transoceanic-AOFC, Ltd., will have a total of $35-million to invest in foreign companies.

The merger, according to an AOFC spokesman, was prompted by the fact that AOFC was, in effect, "loaned up," while Transoceanic still had lendable funds available. Moreover, Transoceanic, almost from its founding in 1955, has had an equity interest in AOFC.

Transoceanic-AOFC says it plans to build an investment portfolio balanced between three principal areas:

- Direct equity investments in overseas companies. The new company expects to increase the proportion of its investments in this category, principally because the returns are more attractive than on commercial loans.
- Loans to new or expanding companies overseas. These loans can run anywhere from $20,000 to $3-million, and possibly higher if other lenders participate.
- Purchase of notes issued by foreign importers of U.S. and European capital equipment. This sort of medium-term financing for U.S. exporters was the original purpose behind AOFC's predecessor company, which was started in 1955 by five commercial banks, including the Chase Manhattan Bank and the First National Bank of Boston.

• • •

Reorganization of TMT Trailer Ferry Delayed for Probe of SEC Charges

A federal judge in Miami this week put off final approval of a proposed reorganization for TMT Trailer Ferry, Inc., until its trustees report on Securities & Exchange Commission charges of irregularities. The SEC moved to block TMT's reorganization last week on the grounds that **the plan might give control of the company to Joseph Abrams, who the SEC claims made large profits through manipulation of TMT stock.** SEC says the company's creditors, who would gain control of the company, have been associated in the past with Abrams, a one-time Army uniform manufacturer.

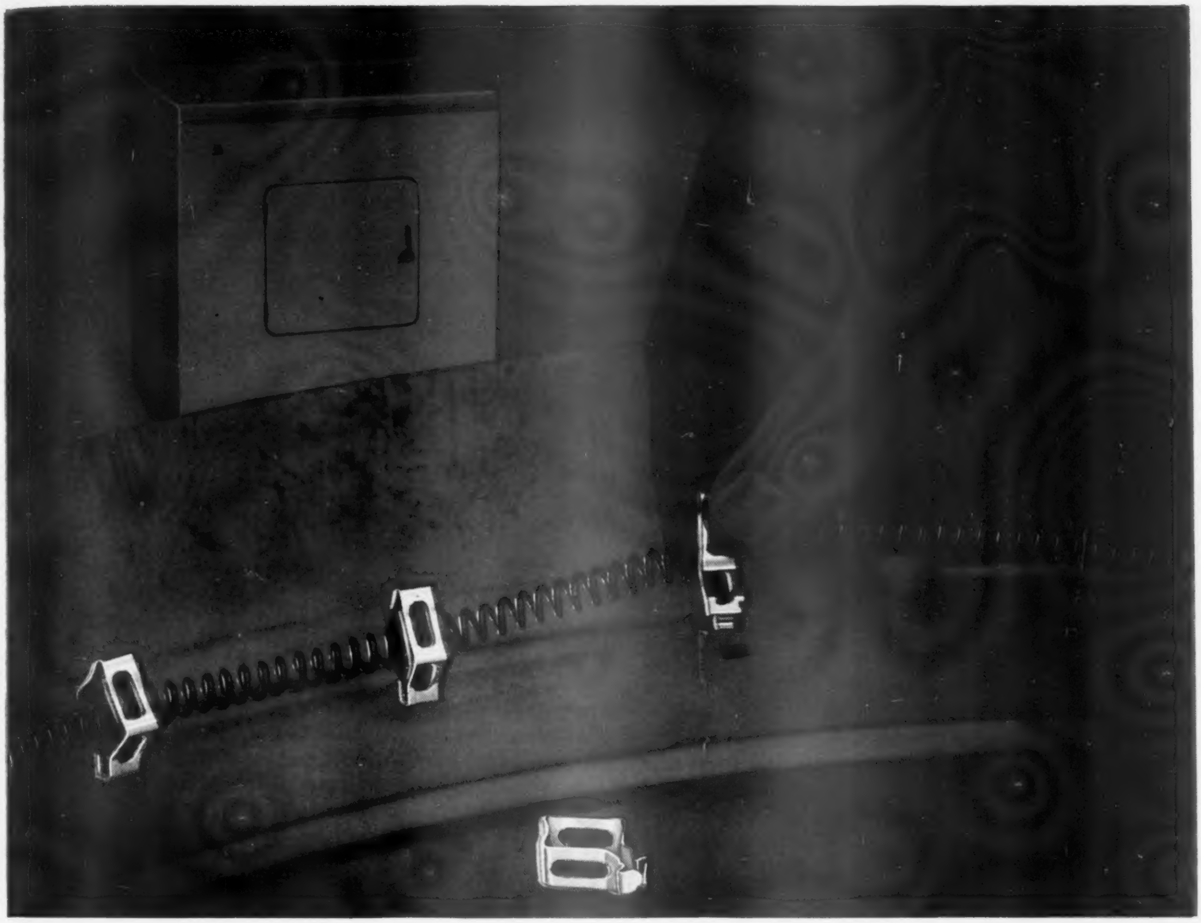
TMT has operated its roll-on, roll-off ferry service under court-appointed trustees since November, 1957. Last March, Federal Judge Emmett C. Choate tentatively approved the new plan, despite opposition from minority stockholders. But now he has ordered TMT trustees to report back on SEC's charge before he gives his final approval.

• • •

Finance Briefs

Republic Aviation Corp. admitted this week it was eying Allen B. DuMont Laboratories, Inc., as a possible merger candidate. Republic now has only a small electronics division, and acquisition of DuMont would give it a broader line. Moreover, DuMont's substantial accumulated tax-loss is attractive bait. Republic's earnings in 1960 are not expected to be much more than $5-million, but it looks forward to bigger earnings in 1961. **However, Republic officials** point out that **Republic has looked into 55 to 60 merger possibilities in the past two years without any positive results.**

Capital Airlines, which has had some trouble lining up long-term financing for its new jet program (Oct.17'59, p115), finally has things squared away. New debt financing will total $59.2-million, and Capital also will raise $8-million through the sale of common stock in a rights offering to shareholders. This will cover the purchase of five Electra turboprops and seven Convair 880-M jets.



ECONOMICS

The Man Behind the Decisions

Company economist Ira T. Ellis of du Pont feeds management the facts and theories for decision-making.

Ira T. Ellis (pictures) is a big, square-faced man, 55 years old but younger-looking. With new acquaintances he can relax, yet keep a dignified distance. With almost anyone he enjoys talking, volubly but precisely, whether the topic is national economic growth or the bidding of a bridge hand.

Ira Ellis is the combination of social scientist, educator, philosopher, diplomat, and businessman that is wrapped up in the role of company economist. He is chief economist for E. I. du Pont de Nemours & Co. of Wilmington, Del., largest U. S. chemical company.

• **Big Decisions**—Last year, du Pont sold $2-billion worth of goods. It has 78 plants, in 28 states. With its constant flow of new products, it is more dynamic than you might expect a 148-year-old company to be. In the scale of its business volume, the geographical and product scope of its plants and markets, and the multiplicity of its decisions about new products, du Pont is perhaps the height of challenge for a corporate economist.

Major decisions at du Pont are made by the finance and executive committees in painstakingly unemotional and sharply detailed consideration of the company's own situation and of the general economic environment. That's where Ellis fits in. He serves directly under these two committees.

• **Change in View**—An economist usually has to make a difficult shift in his way of thinking when he leaves the university and becomes a company man, says an experienced corporate economist who's a friend of Ellis. He may have to swallow hard before he gets used to judging situations from the company's viewpoint instead of the nation's, this economist explains.

"Ira," he adds, "seems to have made this adjustment well."

The adjustment was probably less difficult for Ellis than if he had come to the business world from university teaching or research or from government work as most economists do. After graduation from the University of Delaware, he went to Harvard Business School, which prides itself on tough, practical training. He got his M.B.A. in 1932 and went to work in inventory control at Sears, Roebuck & Co.

Four years later, Ellis came to du Pont as an accountant. In three more years, he joined the economics staff, moving up to chief in 1953.

In the same year, Ellis moved his family into a new eight-room Georgian house in suburban Wilmington, right across the road from du Pont's 45-hole employee golf course. He plays the kind of golf game that proves he doesn't spend excessive time on the course—he shoots in the high 90's.

I. How to Look Ahead

The economic creed that Ellis has evolved over the years can be read in a speech he made in January to a Swarthmore (Pa.) economic discussion group. The subject was major economic problems of the 1960s. Ellis concentrated on four: the stabilization of the purchasing power of the dollar, the stimulation of savings to foster economic growth, the balancing of our international accounts, and the rising proportion of young workers in the labor force.

Ellis concluded that the new decade can bring important improvement in living standards. "But," he said, "economic growth is not easy or automatic, and it is not provided by government, nor can it be financed by excessive expansion of the money supply. It must be financed by the savings and produced by the hard work of all of us. It must be done in a framework of stable prices, with balance in our international accounts, and by employment of the available labor force . . . To have more, we must produce more; and to produce more, we must invest more."

• **Forecaster, or More?**—Ellis likes to compile facts and figures and to rely on them rather than on theory and intuition. "We specialize in history," he says of his department, conceding that the "history" must often be projected far into the future. "We are the chief source of statistics, because no one else will estimate."

Ellis has no such hesitation if he feels the projection or estimate will be useful to the 15 members of the two committees he serves—top du Pont officers and a few directors.

"My assignment," he says, "is to do whatever I think will be of help to them."

Not all company economists would choose the same ways to be helpful. At the first meeting of the new National Assn. of Business Economists last November (BW—Nov.14'59,p128), company economists debated hotly just what their role should be. Some favored a function pretty much limited to that of a forecaster. Others insisted they must expand into new fields, closer to public relations, legal cases, and management decisions.

• **In the Middle**—Ellis stands somewhere between the extreme views. He finds himself involved with more than forecasting, but he tries to stop short of applying the Economics Dept.'s findings to specific du Pont problems. Applying the data, he says, is the manager's job. The economist, he declares, is "an adviser, not a member of the line organization."

Even as he outlines it, though, his job keeps him in the thick of the action. One day last month, for example, his duties carried him from Washington to Wilmington, from the office of a du Pont vice-president to a board room at the Bank of Delaware. That day (pictures) may have been more varied than most, but its activities were typical.

II. Reports and Reports

Information flows from Ellis' office to the rest of du Pont management through both formal and informal channels, through periodical reports and casual conferences. On the Tuesday in question, Ellis had office conferences relating to both aspects of the jobs.

• **Indexes**—Ellis had a talk about the growing importance of foreign cars with Edward R. Caffrey, the economist on the staff who keeps track of the auto business. They decided that Caffrey's monthly report on the auto situation should be revised to include stocks of foreign, as well as domestic, cars in dealers' hands.

Caffrey's auto report to the du Pont brass is one of several monthly reports by the economics office, each covering a basic field. Another in the series sizes up food sales each month, for example. These reports go to department heads who are concerned about indications of future sales.

Caffrey also keeps a daily index and reports monthly on prices of goods that the company buys. Every two years, he and Ellis undertake a major revision of the index to reflect changes in the relative importance of various commodities to du Pont.

Another member of the staff, Ernst S. Erickson, Jr., keeps a monthly index of the prices at which du Pont sells its own production.

• **Special Studies**—The department is responsible also for a steady outpouring of special studies. These are intense, heavily statistical reports on such areas as "yields of high-grade securities" or "outlook for gasoline demand," the latter a 10-year projection. These studies go to heads of operating de-

AUTO SALES are subject of quick conference with Edward R. Caffrey, staff specialist in that field, in office of Ellis, just back from . . .

SPEECH in Washington at Mayflower Hotel (right) to Wax Div. of Chemical Specialties Manufacturers Assn., forecasting business.

LATER IN AFTERNOON, Ellis (below, far right) attended trust committee meeting of Bank of Delaware, of which he is a director.

partments as well as to the finance and executive committees.

These special studies are provided mainly as background information. Ellis also sends his 15 bosses monthly studies on timely topics, designed to stimulate immediate discussion. He gets these reports, Mimeographed, to members of the two committees on the Friday before the third Tuesday of each month. Then on Tuesday, he gives an oral summary to a joint meeting of the committees.

This is the only periodic oral presentation that du Pont's two key committees get, and it often touches off high-level discussion that ranges far from the original subject. True to his belief that it isn't his job to get involved in the application of his findings to specific company policy, at such times Ellis keeps quiet.

• **Worth Talking About**—For these monthly presentations, Ellis tries to pick topics that are in the news. His January report, for example, described revisions in the Federal Reserve Board index, recently modernized by a shift from weights based on a 1947-49 average to ones based on 1957 (BW—Jan. 2'60,p23).

Ellis writes the final draft of each report, but other members of his staff compile data and make projections. The annual December topic, automobile production, always calls for a lot of work from Caffrey. The November report, the business outlook for the coming year, involves the whole staff. The labor of estimating gross national product and the FRB indexes of durables and non-durables is divided up; then Ellis wraps up the three projections and writes the text.

III. Resident Economist

All these formal presentations are only part of Ellis' job. He also serves as a sort of economist in residence, generally available as a consultant on all sort of economic matters. Du Pont executives often use him as a sounding-board for ideas, as well as a source of information.

He's a "comfortable" man to talk to, says Vice-Pres. George E. Holbrook, because he is in a position to be entirely neutral and objective.

Holbrook, for instance, has asked Ellis for advice on investment of collected funds by an organization of which Holbrook is a trustee. Another vice-president dropped into Ellis' office to ask about arguments for and against replacement-cost depreciation. Still another asked about the extent of U. S. investment in France.

• **Clearinghouse**—Usually the questions are far less far-ranging. The economics office is a sort of clearinghouse for miscellaneous information. One recent

question: How many automobiles are there in the U.S.S.R.? The answer: In 1957, there were 415,000.

The office also accumulates a variety of tasks that don't fall anywhere else. One economist is giving a course to du Pont purchasing agents on the operation of the commodities markets and on futures trading. Another is consultant on economics content of public relations brochures.

If du Pont is considering a new plant site, an opinion from Ellis must be included in the presentation. Ellis considers the growth rate of the state, its tax philosophy and finances, and tries to project the state's income and expenditures to see if the tax picture may change. This is one case in which Ellis must depart from his avowed policy and apply his data to a decision.

• **Much Travel**—Ellis keeps a busy schedule outside the du Pont building in Wilmington, too. He gives three or four days a month, sometimes more, to public relations—making speeches, serving on councils, representing the company at conventions and meetings.

Fortunately, Ellis likes to travel. He counts his annual traveling vacation with his wife and two grown children as a high point of the year. The four-year-old family car has 64,000 mi. on the speedometer, and it didn't figure in last summer's vacation in Scandinavia.

• **Reputation**—His fellow business economists rate him as very capable. Says one: "He does a good job of picking up significant long-range trends that would affect du Pont's business."

Du Pont executives hold Ellis in high esteem. Most admit that, while they consider all presentations and all points of view, they give special weight to those of Ellis because "he has another way of looking at things." Attendance at his meetings each month with the two committees is usually 100%.

• **Some Disagreements**—Ellis is most likely to come into direct disagreement with operating department heads in September, when du Pont puts together its annual 2½-year forecast, basis for financial planning. Men in the manufacturing departments tend to be consistently more optimistic than he is.

Ellis is proud, though, that in the fall of 1956 he saw the 1958 downturn coming. At that time, the department heads were predicting that 1958 would run 21% ahead of 1956 in business volume. Right now, Ellis is predicting "some business hesitancy" in 1961.

Disagreements, says one du Pont officer, "raise an orange light." Perhaps that caution light, impelling management to reconsider and to look at a problem from a different viewpoint, is the most important contribution the economists' office makes to the men who turn out the decisions at du Pont. END

BUSINESS ABROAD

Kaiser Expands Abroad

In one busy week, it announces plans for plants in Great Britain, India, and Ghana. It's a sign that U. S. aluminum industry is seeking to compete aggressively overseas.

Kaiser Aluminum & Chemical Corp. this week served notice it intends to be a power in the world aluminum industry when it announced plans for plants in Great Britain, India, and Ghana:

• In London, the company disclosed it is investing $14-million in a new aluminum fabricating company in Britain. Its partner, putting up an equal sum, is Delta Metal Co., Ltd.

• Kaiser got the green light on its Indian proposal when the Export-Import Bank of Washington announced approval of a $13.6-million loan to Kaiser and G. D. Birla interests for construction of a $30-million to $35-million bauxite and alumina reduction plant.

• The company revealed it has formed an international consortium of aluminum companies called Volta Aluminum Co. to develop aluminum in the West African state of Ghana.

In addition, Kaiser engineers began work on a $7-million aluminum fabricating plant near Buenos Aires, Argentina, in partnership with Guillermo Decker, S.A., a non-ferrous product manufacturer.

• **More Aggressive**—The Kaiser actions point up a shift in the U. S. aluminum industry's attitude toward the world market. A year ago, an emergency delegation from the major producers spent a week in Washington seeking government help. It claimed that worldwide overproduction and consequent low-priced imports into the U. S. were hurting the domestic industry. Now, industry spokesmen see expanding markets abroad, say they intend their overseas ventures to compete in foreign, not U. S., markets.

• **British Deal**—In England, Kaiser is following the lead of its two big U. S. competitors, Reynolds Metals Co. and Aluminum Co. of America.

Reynolds got the jump a year ago when, along with its British partner, Tube Investments, Ltd., it beat out Alcoa to buy a $50-million half-interest in British Aluminium Co. Last summer, Alcoa put an undisclosed sum into a 49% partnership with Imperial Chemical Industries, Ltd., to set up a rolling and extrusion company, Impalco, in south Wales. The other North American grant, Canada's Aluminium, Ltd., has been established in Britain a long time.

Kaiser's British venture involves forming a new Delta Metal subsidiary, James Booth Aluminium, Ltd., to succeed an existing Delta subsidiary. It will expand present aluminum fabricating facilities at Kitts Green Works, Birmingham, already one of Britain's five largest manufacturers of wrought aluminum products.

• **In Asia**—In India, the Kaiser-Birla project is a 20,000-ton-capacity aluminum reduction plant to be built by Hindustan Aluminum Corp., a Kaiser-Birla subsidiary. The plant, to be completed in two years, will be the largest joint U. S.-Indian private industrial project to date.

Kaiser is also dickering with private interests in India to erect a new steel mill. The company is now a minority partner in an expansion of the Tata Steel Works.

• **In Africa**—In Ghana, Kaiser is reportedly taking the lead in setting up Volta Aluminum Co. Other partners, so far unannounced, are probably Kaiser's U. S. competitors and Canadian and British interests.

First step in this long-range project is development of a hydroelectric plant on the Volta River to provide power. It is being negotiated as a joint venture with the government of Ghana. The British government is reported interested in putting up some of the money required, along with the World Bank, the Export-Import Bank, and possibly the U. S. Development Loan Fund. World Bank and Ex-Im officials say they are interested in the project, and a World Bank technical study team this week arrived in Accra, the capital of Ghana, to discuss plans with Prime Minister Kwame Nkrumah.

Other West African hydro and aluminum development proposals are on the fire, with several of Volta Aluminum's unnamed partners supposedly interested in a $170-million bauxite mining and alumina reduction project at Boke in neighboring Guinea.

• **Worldwide Projects**—Kaiser now has close to $100-million invested in overseas aluminum and automotive production facilities alone. This does not include its foreign engineering operations.

The company recently set up a new international operations office to explore aluminum opportunities around the world. It is considering further projects in India, Latin America, Africa, the Middle East, the Far East. END

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THE TREND

The Fight for Gold Reserves

When it raised the discount rate from 4% to 5% last week, the Bank of England said it was more concerned with domestic inflationary strains than with international conditions (page 34).

Nevertheless, the British decision forces important questions into the foreground. For, regardless of the official explanation, the international financial community insists on regarding the British move as aimed primarily at checking the drift of funds out of London—especially to West Germany.

Taken by itself, the British move cannot be criticized as wrongheaded or shortsighted. The British have every right to be concerned about short-term money leaving London, about their needs for funds to finance expansion. The British, in fact, are doing only what central bankers in many countries are doing—and that is precisely where the problem lies.

The Western capitals are being driven to jack up interest rates competitively. Each insists that it is not trying to beggar its neighbor by stealing funds from it, but is acting in defense of its own currency and reserves. Whether such moves are made offensively or defensively, however, the danger is the same: that interest rates may spiral up to excessively high levels, choke off economic expansion, and—when recession sets in—handcuff nations from taking strong counter-cyclical monetary and fiscal measures, for fear of setting off a flight of capital and gold.

In brief, the unhappy thought to which the British move leads is that the nations of the West are again being caught in the same sort of nasty box—fabricated of gold—that led to so much agony at the end of the 1920s. We have succeeded in reconstructing essentially the same gold exchange standard that prevailed in the 1920s, and now—as then—nations may be prevented from permitting interest rates to decline (when domestic conditions would warrant such a decline) lest gold reserves go out in a rush.

In this respect, we are coming almost full circle to where we were in the 1920s—when the economic policy of a nation was dictated by movements of international balances rather than by domestic needs. Nations that found their currencies weakening in international exchange were supposed to put their home economies under intense deflationary pressure—regardless of what it cost them in unemployment and lost production. (Much of the British labor force lived on the dole during the 1920s so that the pound could be defended.)

When the gold exchange system collapsed in 1931, helping to drag the world down into the deepest depression in history, domestic economic problems became paramount; virtually all Western governments accepted the responsibility of insuring high levels of production and employment—whatever the international financial consequences. Since the war we have been moving back to a system that subjects national economies to "the discipline of the balance of payments." In many ways this has brought great benefits: a needed brake on inflation, free convertibility of currencies, expanding international trade.

The Hard Choice

But we must not be naive about the problem this "return to normalcy" raises both for economic expansion and for the maintenance of domestic stability and high employment. At the moment the U. S. and Western Europe, expecting a strong economic expansion, want tight money, anyhow; and the central bankers are glad to use balance of payments worries as a stick to beat the advocates of easy money at home. But a turn in the economic weather toward recession might confront nations with a grim dilemma. Either they would have to defend their currencies and reserves at the cost of stagnation and heavy unemployment. Or they would have to let their new international monetary system go hang and concentrate on stimulating the domestic economy by easy money and deficit financing. In that case they would have to give up hope of expanding world trade and adopt heavily protectionist policies—with all of the unpleasant political consequences for the whole free world that such a move would almost certainly imply.

This problem has no easy solution The world being what it is, we are not simply going to abandon gold or go to freely flexible exchange rates. Nor is there any hope that a wave of devaluations would somehow restore balance and provide the funds for steady world economic growth. But this is not to say that no solution is possible, that we must do nothing until a crisis breaks. One big difference between the present situation and the one that existed in the 1920s is that we now have devices for modifying the mechanistic operation of the gold exchange system—notably the International Monetary Fund. The IMF has already demonstrated—as during the Suez crisis—that it can help nations through periods of acute strain with its sizable holdings of gold and hard currencies.

But there is real question whether the IMF could get us through a widespread and prolonged ordeal. This makes it all the more urgent for the nations of the West to start exploring the problem and some of the possible solutions to it already proposed. Most proposals made thus far involve increasing the role of the IMF; some of these may be worth exploring in detail. And further study may uncover wholly new approaches. In any case, the time to start working seriously on this problem is now—while the economic weather is still fair.

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